SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1177)

annual report 2006

CONTENTS

CORPORATE PROFILE

Sino Biopharmaceutical Limited (the "Company"), together with its subsidiaries, an associate and jointly-controlled entities (the "Group"), is an integrated pharmaceutical enterprise. Applying advanced biotechnology and modernized Chinese medicinal technology, the Group researches, develops, manufactures and markets a vast array of health enhancing biopharmaceuticals, modernized Chinese medicines and chemical medicines. The Group has also strategically expanded into the energy chemical industry. Through its wholly-owned subsidiary Chia Tai Refined Chemical Industry Limited ("CTRC"), the Group would establish a joint venture engaging in the high growth business of refining of coal into methanol to low carbon olefin (MTO) products in Yulin City, Shaanxi Province, the People's Republic of China (the "PRC" or "China").

The Group's pharmaceutical products can be grouped under two major therapeutic categories: cardio-cerebral diseases and hepatitis. It also actively develops medicines for treating tumors, analgesia, respiratory system diseases, diabetes and digestive system diseases to meet the increasing demands of the market, medical practitioners and patients.

Principal products:

Cardio-cerebral medicines:	Kaishi (Alprostadil) injections, Spring (Purarin) injections
Hepatitis medicines:	Ganlixin (Diammonium Glycyrrhizinate) injections and capsules, Tianqingfuxin (Marine) injections and capsules
Oncology medicines:	Tianqingyitai (Zolebronate Acid) injections
Analgesic medicines:	Kaifen (Flurbiprofen Axetil) injections

New Key products with great potential include:

Hepatitis medicines:	Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules, Mingzheng (Adefovir Dipivoxil) capsules
Cardio-cerebral medicines:	Tianqingganan (Glycerin and Fructose) injections, Tianqingning (Hydroxyethylstarch 130) injections
Oncology medicines:	Renyi (Pamidronate Disodium) injections
Respiratory medicines:	Tianqingzhengshu (Loratadine) tablets
Diabetic medicines:	Taibai (Metformin Hydrochloride) sustained release tablets, Beijia (Nateglinide) tablets

Forbes Award

Gold Medal in "The Third Chinese International Patented and Famous Brands Exhibition"

Postdoctoral Programme

The medicines which have received Good Manufacturing Practice ("GMP") certifications issued by the State Food and Drug Administration ("SFDA") of the PRC are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP Certification for Health Food in capsules from the Department of Health of Jiangsu Province.

The Group's principal subsidiary-Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT") and the jointly-controlled entity, Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide") have both been designated "High and New Technology Enterprises" and "Foreign Invested Advanced Technology Enterprises". Beijing Tide also received the "Key New and High Technology Enterprise" certificate from the Torch High Technology Industry Development Center of the Ministry of Science and Technology of the PRC in June 2006. Beijing Chia Tai Green Continent Pharmaceutical Co. Ltd. ("CTGC"), another subsidiary of the Group, was also hailed as a "High and New Technology Enterprise".

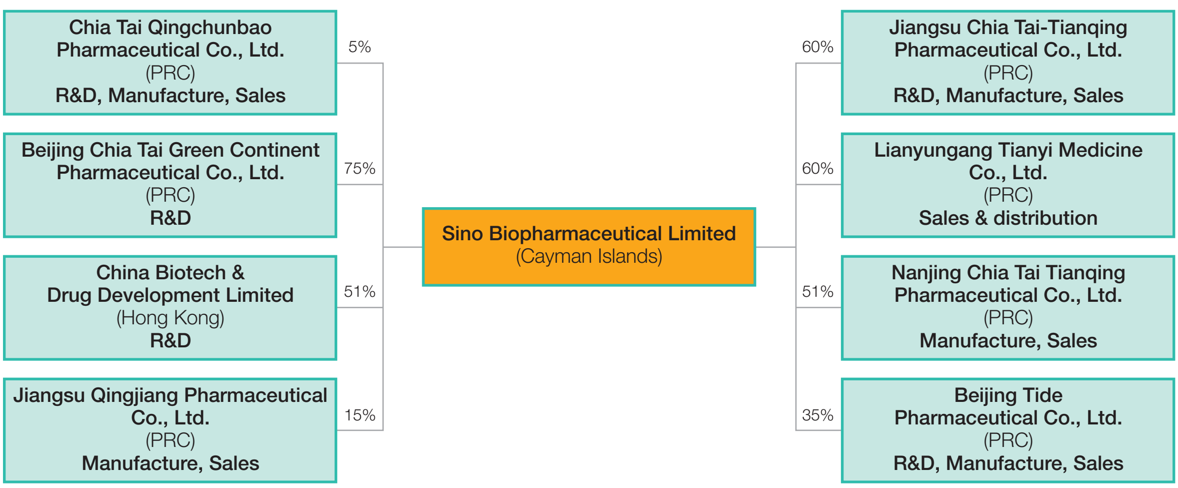
The research center of JCTT was recognized as the "Postdoctoral Research & Development Institute" by the PRC's Ministry of Personnel. It is the country's unique "New Hepatitis Medicine Research Center".

The Group's website: http://www.sinobiopharm.com

Stock Code: 1177

GROUP STRUCTURE

FIG.1.1



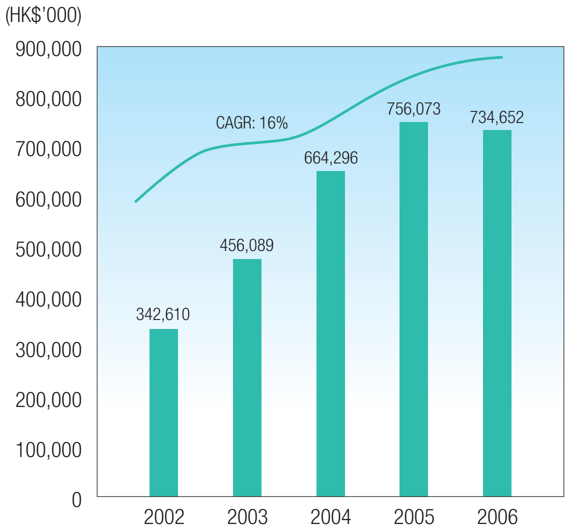
FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
CONTINUING OPERATIONS					
TURNOVER	**734,652**	756,073	664,296	456,089	342,610
Cost of sales	**(138,788)**	(139,418)	(133,163)	(105,872)	(73,201)
Gross profit	**595,864**	616,655	531,133	350,217	269,409
Other income and gains	**91,486**	28,599	7,063	8,154	3,389
Selling and distribution costs	**(327,720)**	(310,609)	(253,390)	(176,167)	(152,372)
Administrative expenses	**(121,802)**	(110,866)	(101,885)	(79,396)	(53,550)
Other expenses	**(31,254)**	(42,224)	(33,382)	(18,593)	(13,349)
Finance costs	**(2,205)**	(2,729)	(1,050)	(843)	(418)
Share of profit of an associate	**704**	–	–	–	–
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**205,073**	178,826	148,489	83,372	53,109
Fair value adjustment	**–**	(66,315)	–	–	–
PROFIT BEFORE TAX	**205,073**	112,511	148,489	83,372	53,109
Tax	**(22,106)**	(18,311)	(15,407)	(11,625)	(9,540)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**182,967**	94,200	133,082	71,747	43,569
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	152,213	152,129	78,209	74,842
Gain on disposal of subsidiaries	**–**	1,406,191	–	–	–
Total profit for the year from a discontinued Operation	**–**	1,558,404	152,129	78,209	74,842
PROFIT FOR THE YEAR	**182,967**	1,652,604	285,211	149,956	118,411
Attributable to:					
Equity holders of the parent	**141,172**	1,532,929	168,485	81,636	57,369
Minority interests	**41,795**	119,675	116,726	68,320	61,042
	182,967	1,652,604	285,211	149,956	118,411
TOTAL ASSETS	**2,215,110**	2,140,222	950,535	787,244	593,986
TOTAL LIABILITIES (exclude convertible bonds)	**(183,611)**	(164,978)	(239,845)	(215,531)	(124,653)
CONVERTIBLE BONDS	**–**	–	(42,900)	(78,000)	(46,800)
NET ASSETS	**2,031,499**	1,975,244	667,790	493,713	422,533
MINORITY INTERESTS	**(122,937)**	(121,997)	(211,716)	(156,348)	(129,725)

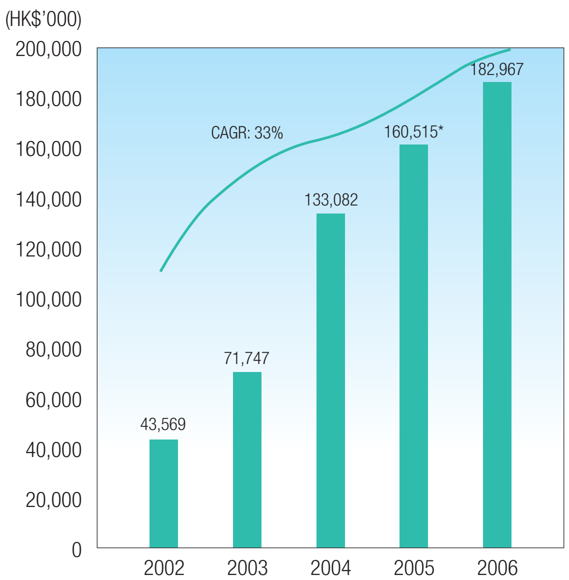
SALES GROWTH OF CONTINUING OPERATIONS

FIG.1.2



GROWTH OF PROFIT FROM CONTINUING OPERATIONS

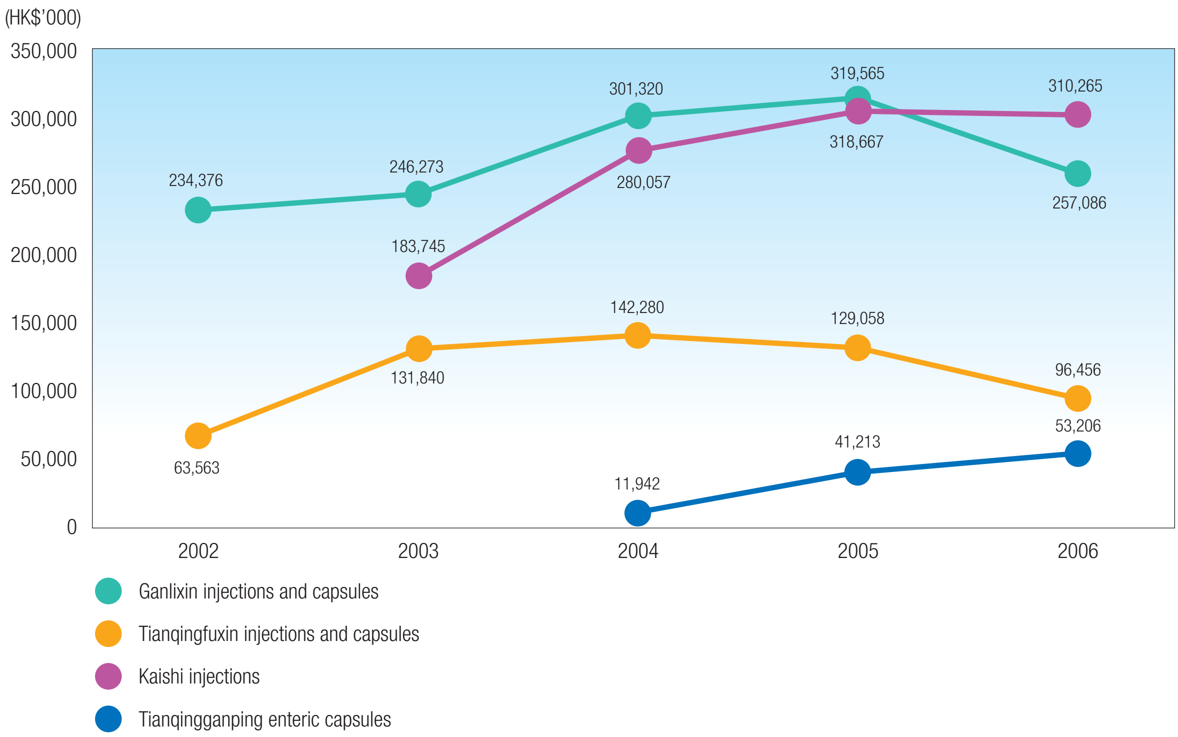
FIG.1.3



* Profit before fair value adjustment for derivative financial instrument

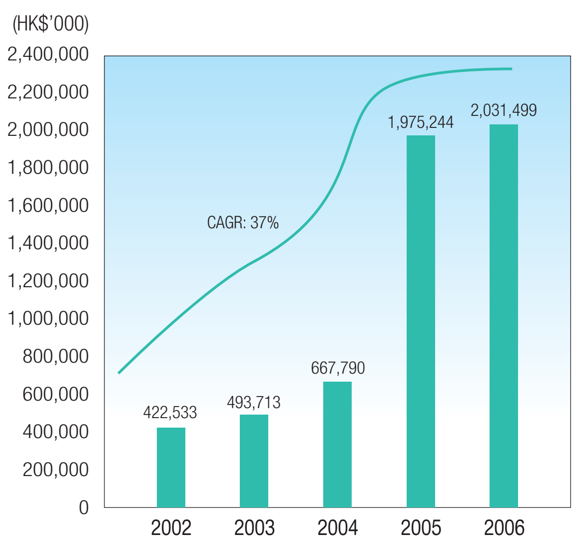
SALES GROWTH OF BLOCKBUSTER PRODUCTS

FIG.1.4



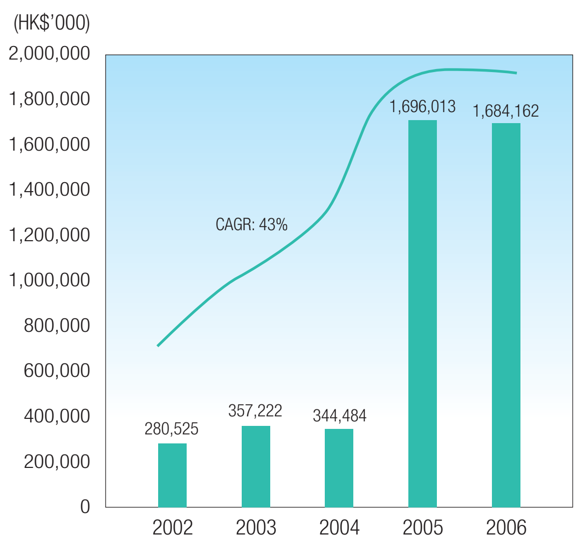
NET ASSET VALUE

FIG.1.5



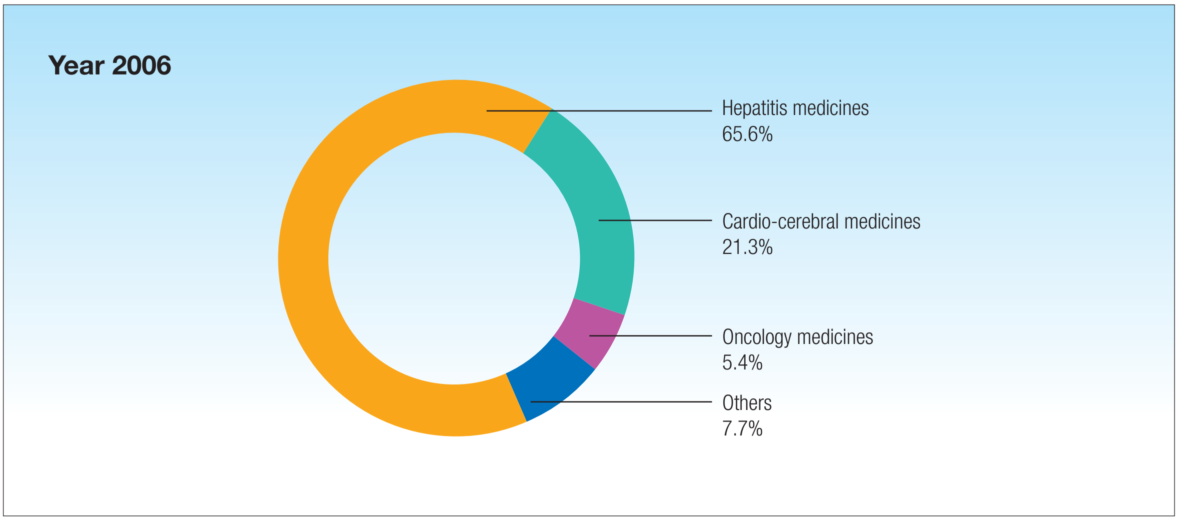
CASH AND CASH EQUIVALENTS

FIG.1.6



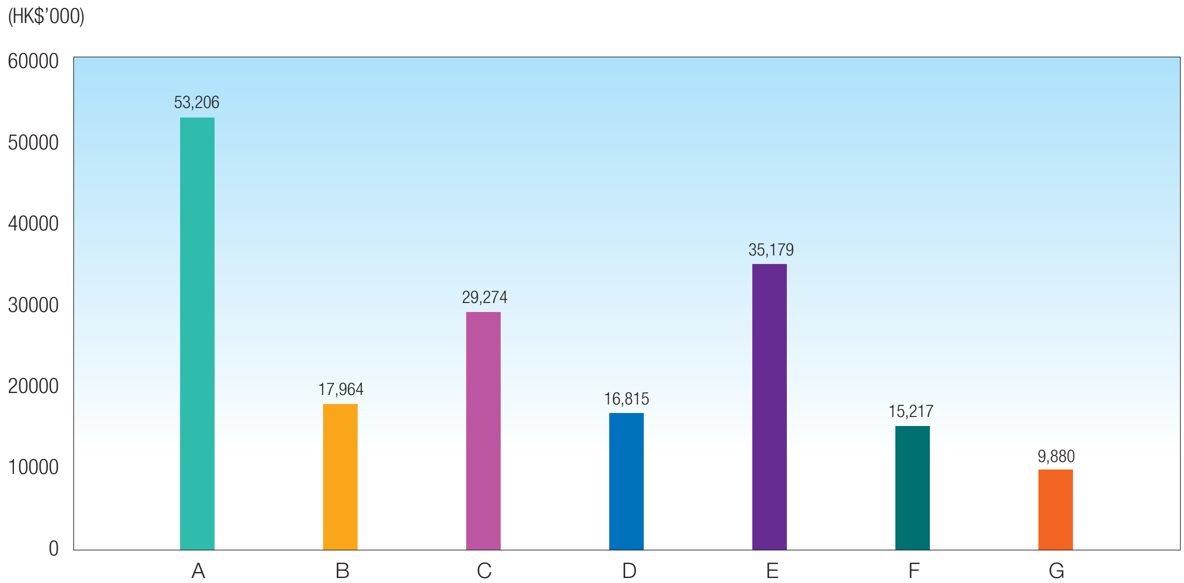
TURNOVER BY THERAPEUTIC CATEGORIES

FIG.1.7



TURNOVER BY NEW PRODUCTS WITH GREAT POTENTIAL (2006)

FIG.1.8



A Tianqingganping enteric capsules (launched in May 2004)
B Tianqingganmei injections (launched in November 2005)
C Mingzheng capsules (launched in July 2006)
D Tianqingganan injections (launched in April 2004)
E Tianqingyitai injections (launched in January 2005)
F Kaifen injections (launched in January 2005)
G Taibai sustained release tablets (launched in May 2004)

AWARDS

Corporate Awards

- The Company was awarded "Chinese Outstanding Enterprise Achievement Prize" by the Capital Magazine in May 2006
- The Company was awarded "Best under a 1 US Billion within the Asia Pacific region in 2005" by Forbes Asia
- The Company was awarded "Hong Kong Outstanding Enterprises 2005" by Economic Digest
- The Company was awarded "Red Herring Small Cap 100" by Red Herring Magazine
- Chia Tai Qingchunbao Pharmaceutical Co. Ltd. ("CTQ") ranks 22nd, Beijing Tide ranks 49th and JCTT ranks 94th in the Chinese Medicine Entity Independent Audited Enterprises based on aggregated profit for 2005 according to China Medical Economic Information Network
- JCTT was commended "People's Safe Medicine" enterprise in "Safe Medicine for Everyone", an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People's Health magazine
- JCCT was designated "Torch Programme Excellent High and New Technology Enterprise" from the PRC's Ministry of Science and Technology
- JCTT was designated "Post-doctoral Technology Innovation Centre" from the Post-doctoral Administration Committee of the PRC's Ministry of Personnel
- JCTT received "Jiangsu Top 100 High and New Technology Enterprise" title jointly awarded by Jiangsu Provincial Technology Evaluation Consulting Centre and Jiangsu Provincial Association of Private Enterprises in 2005
- JCTT received "Advanced Technology Foreign Investment Enterprise" certificate from Outward Trade & Economic Cooperation Committee of Jiangsu Provincial
- JCTT was designated "High and New Technology Enterprise" certificate, "Technology Intensive and Knowledge Intensive Enterprise" and "Jiangsu Provincial New Hepatitis Pharmaceutical Engineering Research and Technology Centre" from Science and Technology Committee of Jiangsu Provincial
- Beijing Tide and CTGC was designated "High and New Technology Enterprise" by Beijing Municipal Science and Technology Committee
- Beijing Tide received "Advanced Technology Foreign Investment Enterprise Certificate" from Beijing Municipal Bureau of Commerce
- Beijing Tide received "Key High and New Technology Enterprises Certificate" from Torch High Technology Industry Development Centre of the PRC's Ministry of Science and Technology

Product Awards

- Tianqingganmei injections won the gold medal in "The Third Chinese International Patented and Famous Brands Exhibition" organized by State Intellectual Property Office of the PRC
- Ganlixin was commended "People's Safe Medicine Branding" in "Safe Medicine for Everyone", an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People's Health magazine
- Ganlixin product line received "Jiangsu Provincial Well-known Product" from Jiangsu Provincial Committee of Well-known Product Designation
- Tianqingganping was awarded "National Torch Programme Project Certificate" from the PRC's Ministry of Science and Technology
- Kaishi Injections received "National New Key Product" certificate jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China
- Kaishi Injections received "Beijing Science and Technology Second Honor Award" from the Beijing Municipal People's Government
- Spring Injections was named as "Satisfactory and Favorite Quality Brand for Chinese Consumers" in 2005 by "China's Medium-Light Products Quality Assurance Centre"
- Kaifen injections received "National New Key Product" certificate jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 31 December, 2006 for the Group.

Mr. Tse Ping, *Chairman*

RESULTS

During the year under review, the Group recorded revenue from continuing operations of approximately HK$734.65 million, about 2.8% lower than last year. Profit attributable to the Group from continuing operations amounted to approximately HK$141.17 million, representing an increase of around 29.6% from that of last year before fair value adjustment for derivative financial instrument and also representing an increase of 231% from that of last year after fair value adjustment for derivative financial instrument. Basic earnings per share from continuing operations were approximately HK6.24 cents. The Group launched Mingzheng capsules in July 2006 and Tianqingning injections in November 2006, both of which have great potentia. The new products accounted for approximately 26.7% of the Group's total revenue. The Group had cash equivalents and bank balance of approximately HK$1,684.16 million. The Group recorded satisfactory performance in spite of the challenging industry environment because it had excellent guidance from the Board and the full support of staff dedicated to following the Group's management concept of "achieving results and containing crisis". The concept is especially crucial to enhancing the Group's competitiveness with the industry changing and the market standardizing. Also, coupled by the "people-oriented and appointment on merit" principle and the belief in "possibility lies in unity", and employing a result-linked job appraisal system, the Group has created a close association between individual performance with its development. This association has prompted staff to apply their greatest creativity to help the Group achieve the best results.

DIVIDEND

The Board has recommended the payment of a final dividend of HK2 cents per share, subject to the approval of shareholders at the Annual General Meeting to be held on 18 June, 2007. The final dividend, together with the first quarter dividend of HK1 cent per share, the interim dividend of HK1 cent per share and the third quarter dividend of HK1 cent per share, the total dividend paid for the year 2006 amounted to HK5 cents per share (2005: the total dividend paid was HK11.5 cents per share). The Register of Members of the Company will be closed from Thursday, 14 June, 2007 to Monday, 18 June, 2007, both days inclusive, during which period no transfer of share of the Company will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 13 June, 2007.

All members of the Board

INDUSTRY OVERVIEW

Pharmaceutical Industry

The global pharmaceutical industry grew approximately 6% in 2006, with total value reaching approximately US$603.7 billion. Market focus continued to shift from the United States of America ("USA") to emerging markets, with PRC boosting the fastest growth among all the biggest medicine markets in the world. Multinational pharmaceutical companies continued to derive drive for profit growth from new and innovative medicines. However, research and development ("R&D") of new medicines is facing increasingly tough barriers including rising costs, more stringent approval processes resulting from withdrawal of medicines with safety issues, and the surge in generic medicines. The low prices of generic medicines have bred a lucrative market that even multinational enterprises find attractive. Branded generic medicines are expected to be major beneficiaries in this competition. More and more multinational enterprises have flocked to the PRC to invest in pharmaceutical production of proprietary medicines, and set up R&D departments in the country. This shows that the PRC pharmaceutical market has strong appeal for global enterprises.

In 2006, pharmaceutical industry in the PRC in terms of production volume and commercial sales continued to grow, while a setback was experienced in the industry profitability. Both import and export surged notably while enterprises suffered bigger losses. Sales growth at the end market (hospitals) recorded the lowest in 10 years while retail sales showed steady growth. As indicated in the "Economic Analysis of Operation of Pharmaceutical Industry in 2006" by the PRC's National Development and Reform Commission, the total production value of the pharmaceutical industry was RMB553.7 billion, representing an increase of 18.4% against that of last year. Sales income of the pharmaceutical industry was RMB526.8 billion, 19.4% higher than last year. Total profit of industrial enterprises increased by 11.1% to reach RMB41.3 billion. The ratio of sales to production was 95.4%, 0.8% higher than last year. The industrial profit margin was 7.9%, 6.4% lower as compared with last year.

In 2006, the PRC government for the first time included the concern of "difficult and expensive medical care" into its work report. Determination of the government to establish a sustainable and fair medical and health system has brought the pharmaceutical industry into the spotlight. 2006 was also a critical year for the pharmaceutical industry going through adjustment, consolidation and standardization. The PRC government is determined to regulate and standardize market practices, production and new medicine registration, and cramp down on corruption in the industry. Since reformation on the usage of medicines in hospitals was the main focus of government policies, not only sales of existing prescription medicines were affected, marketing of new prescription medicines also became more difficult. The government has been active in tracing and monitoring and conducting unannounced inspection on GMP implementation status of different medicines in order to effectively regulate and standardize medicine production procedures. Furthermore, with the government exercising more caution on of new drug approval and implementing thorough inspection of all registrations and applications to regulate and standardize the R&D and registration procedures of medicines, fewer new medicines were launched during the year. The amended "Guidance for Administration of Medicine Registration" to be launched soon compiled with the principles of "strict definition of new medicines, scientific categorization and management, encouraging proprietary development and innovation, and regulating replication". Aiming at guiding the industry towards a healthy growth path, in addition to implementing different regulatory policies, the government still encourages enterprises to develop innovative products.

The three rounds of price cut measures of medicines last year squeezed the industry's overall profitability. Other market factors such as patents expiry and surfacing of generic medicines also induced intense competition in the market which in turn forced price cuts among indigenous medicines. Those and the increase in water, electricity and gas costs, together with the promulgation of the 2005 PRC "Pharmacopoeia" to raise product quality all led to the increased operation and production costs for pharmaceutical enterprises. Other developments that have aggravated competition included regulation on direct sale, stringent pharmaceutical categorization and centralization of more medicine wholesale companies in the market. Pharmaceutical organizations subject to purchasing through centralized tendering and online tendering for the purpose of enhancing transparency of medicine circulation also posed pressure on margins and profits. Within the industry, mergers and restructuring have been taking place in a more rational manner. As production increases, the market becomes more centralized, and well-known brands continue to gain prominence in the market. It would be the sizeable and stronger players who stand to benefit.

The pharmaceutical industry continues to be a growing industry. As the pharmaceutical market in the PRC is still at the stage of steady growth, players are opened to both challenges and opportunities. Driven by continuous development of the Chinese economy, increasing level of medicine consumption per capita, the growing population and the aging trend, hastening urbanization of rural areas, the country's medical system reform, the development of the community medical system as well as the enlarging coverage of new rural cooperation medical system, the country's pharmaceutical market will expand continuously.

Coal into Olefin Industry

The coal to olefin industry refines coal into methanol to low carbon olefin products. Low carbon olefin products mainly refer to ethylene and propylene. They are important raw materials for producing organic petroleum. Their end products are widely used in the packaging, construction, textile and pharmaceutical industries. Ethylene industry is a crucial benchmark for measuring a country's level of economic and social sophistication and integrated strengths. Currently, naphtha is the main raw material for producing low carbon olefin products. China has changed from an oil exporting country into an oil importing country. In 2005, China imported over 40% of its petroleum from overseas. Imported petroleum is expected to make up 60% of all supply in the country by 2020. China has taken over Japan to become the world's second largest oil consumption country (after the USA). With global petroleum reserve dwindling, exploring cost effective non-petroleum raw material for producing low carbon olefin products is of vital importance in helping to ease the threats of petroleum shortage. "Rich in coal, lack of oil with scarce gas" summarizes energy resources distribution in China. Shaanxi, Shanxi and Inner Mongolia are the main regions where coal can be found. If carbon olefin projects were set up close to coal mines, the production cost of low carbon olefin products would be comparable to using naphtha as raw material with petroleum price at US$30 a barrel. Petroleum price is currently standing at more than US$50 a barrel and is unlikely to come down in the near future. Thus, refining coal into low carbon olefin products is an effective substitute to using naphtha as the raw material. It has competitive cost, which agrees with China's energy strategy and direction of industrial development.

OUTLOOK AND PROSPECT

The Group will continue to pursue dual business direction in the pharmaceutical and coal into olefin businesses with utmost diligence. Using profits generated from the pharmaceutical business and abundant capital reserves, the Group plans to:

1. Explore potential within the Group

Although the pharmaceutical industry in the PRC will continue to consolidate and standardize, it is still a growth industry. It is believed that the pharmaceutical market will grow steadily and present players with both challenges and opportunities. The continuously booming Chinese economy, improving living standard of the people, increasing average medicine consumption level, the growing Chinese population and the aging trend, hastening urbanization of rural areas, deepening medical system reform, the development of community medical system and the enlarging coverage of new urban medical system are all driving forces for the pharmaceutical industry. The Group will continue to apply modernized Chinese medicinal technology and biotechnology to research, develop and manufacture medicines that address market needs. It will continue to focus on special treatment areas and develop relevant products and specialty brands to further enhance the Group's competitive advantage. In addition to hepatitis medicines and cardio-cerebral medicine lines, the Group will actively develop oncology medicines, analgesic medicines, respiratory system and anti-diabetic medicines. To accelerate business development, the Group will also continue to launch blockbuster drugs to address market needs and capture market share so as to lower the Group's operating costs and increase the profit margin.

2. Accelerate the step of mergers, acquisitions and restructuring of the pharmaceutical companies

With consolidation and regulation of production, medicine registration and market circulation, pharmaceutical industry in the PRC is encountering dramatic changes. Opportunities and challenges exist in the enhancement of merger and acquisition, R&D capabilities, management skills, end market share and branding. A tendency of more centralized production and market will be seen in the future. With a strong reputation and profound investment management experience in the PRC pharmaceutical industry and abundant capital reserve, the Group has attracted merger and acquisition proposition from a number of large domestic and international enterprises in and outside the country. The Group believes through such deals, it will be able to establish new income streams, develop its business in strong strides and reinforce its industry leadership.

3. Invest in and develop the coal into olefin business

In view of currently high petroleum prices, the Group believes that producing olefin using lower priced coal will help establish a low cost supply channel for the coal into olefin industry. This is set to bring stable and promising returns to industry players while becoming another income stream for the Group in the long run.

The Group reported outstanding sales and profit with a CAGR of 16% and 33% respectively over the past five years. In addition, it has been among the top 100 enterprises in the PRC's pharmaceutical industry in terms of profitability over the past five years. The Group was also included among the "one of the Best Enterprises under a US Billion within the Asia Pacific Region in 2005" by Forbes Asia, named as "Hong Kong Outstanding Enterprises 2005" by the Economic Digest and included in the "Red Herring Small Cap 100" list by the Red Herring Magazine and was awarded "Chinese Outstanding Enterprise Achievement Prize" by the Capital Magazine in May 2006. These accolades are a testament to outstanding leadership by the Group's management team and the impressive achievements that have resulted. The Group will continue to do its utmost to innovate, increase its market share, reduce the operational cost and enhance returns for shareholders.

APPRECIATION

On behalf of the Board, I would like to express my thanks to our shareholders for their full trust, support and understanding, as well as to all our staff for their contribution and diligence.

Tse Ping
Chairman

3 April, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the year under review, the Group recorded revenue from continuing operations of approximately HK$734.65 million, about 2.8% lower than last year. Profit attributable to the Group from continuing operations amounted to approximately HK$141.17 million, representing an increase of around 29.6% from that of last year before fair value adjustment for derivative financial instrument, and also representing an increase of 231% from that of last year after fair value adjustment for derivate financial instrument. Basic earnings per share from continuing operations were approximately HK6.24 cents. The Group launched Mingzheng capsules in July 2006 and Tianqingning injections in November 2006, both of which have great potential. The new products accounted for approximately 26.7% of the Group's total revenue. The Group had cash equivalents and bank balance of approximately HK$1,684.16 million. The Group recorded satisfactory performance in spite of the challenging industry environment because it had excellent guidance from the Board and the full support of staff dedicated to following the Group's management concept of "achieving results and containing crisis". The concept is especially crucial to enhancing the Group's competitiveness with the industry changing and the market standardizing. Also, coupled by the "people-oriented and appointment on merit" principle and the belief in "possibility lies in unity", and employing a result-linked job appraisal system, the Group has created a close association between individual performance with its development. This association has prompted staff to apply their greatest creativity to help the Group achieve the best results.

BUSINESS REVIEW

The industry underwent adjustment, consolidation and standardization in 2006 with players including the Group subject to different regulation and market pressures, as stated under the Industry Overview. To combat rising cost, product prices reduction, the difficulties surrounding development of new medicines, and the effects of regulatory measures to bring order into the market and production, the Group looked deeply into the effects posed by industry regulations on its production and operations and made adjustments with reference to its unique characteristics including the nature of its products, its strengths in R&D, brand supremacy, sales network, patented products and technological capabilities. On the internal management front, the Group had its corporate management structure re-organised, improved workflow and redistributed resources, which helped to lower operational cost. It also fine-tuned the product R&D structure to focus more on the development of blockbuster products. The Group also strived to improve profitability by stepping up sales and marketing, brand building and strengthening of its sales network. To boost sales, it mounted more aggressive academic promotion for products with strong potential and injected more resources into developing end-markets and defending market shares. In line with the current medical and health reform, which focuses on the establishment of an effective community health organization for the urban area and rural area correspondingly, the Group also sought to expand the community hospital and retail markets for its medicines and capture every opportunity to promote

JCTT's factory

NJCTT's factory

Beijing Tide's factory

the enterprise itself and its brands. New promotion channels were established taking into account the unique characteristics of different products. For example, a non-prescriptive medicine (OTC) team was set up to focus on promoting the products to retailers and direct sale via TV channels was used as a means to increase revenue.

On 30 August, 2006, the Company through its wholly-owned subsidiary, CTRC, entered into a joint venture agreement with three companies to establish Shaanxi Xinxing Energy Chemical Industry Limited (陝西新興能源化工有限公司) ("SXEC"). The joint venture is 43%-owned by CTRC, which would contribute RMB752,500,000 as capital of the company. The project was approved by shareholders at the Company's extraordinary general meeting on 12 October, 2006. SXEC is located in Yulin City, Shaanxi Province, the PRC, and will mainly be engaged in the refining of coal into methanol for extracting low carbon olefin (MTO) chemical products, such as ethylene and propylene, and ultimately producing products including polyethylene and polypropylene. Compared with the conventional methods of extracting ethylene and propylene from petroleum, and taking into account the current high price of petroleum, extracting low carbon olefin from cheaper coal has strategic value as a new source of material. Coal into olefin industry is one of the key industries supported by the PRC government. The project is expected to bring stable and promising returns to the Group. Currently, the project is in the pre-construction preparation stage.

For its pharmaceutical operation, the Group will maintain focus on developing specialized medicines where its strengths lie. Apart from boosting its existing medicine series for treating hepatitis and cardio-cerebral diseases, the Group has also been actively developing analgesic medicines, oncology medicines, respiratory medicines and diabetic drugs, etc.

The Group's principal profit contributors are JCTT, Beijing Tide, Nanjing Chia Tai Tianqing Pharmaceutical Co. Ltd. ("NJCTT") and CTQ.

Cardio-cerebral medicines

Mainly manufactured by Beijing Tide and NJCTT, cardio-cerebral medicines accounted for 21.3% of the Group's turnover. The segment's major product, Kaishi injections, is produced by Beijing Tide. It is based on the Drug Delivery System (DDS) theory and is the first micro-sphere target sustained release medicine in the PRC. This patented technology is championed by Professor Mizushima Yataka, a renowned Japanese medical scientist, and the product has received many national prizes. In recognition of his contribution to the PRC economy, Professor Mizushima was presented the "Friendship Award" and "International Cooperation Award of State Science Technology" by the PRC government. He was further received by China

Chinese Premier Wen Jiabao met with Professor Mizushima Yataka

Kaishi injections

Spring PVC-free soft bags for intravenous injections

Spring injections

Tianqinganan injections

Tianqingning injections

national leaders in 2007. Employing advanced technology and boosting high reliable quality, the product is very well received among medical practitioners and patients. Its sales has been rising and, for the year ended 31 December, 2006, reached HK$310.27 million, making it the best selling product of the Group.

NJCTT and JCTT are engaged in the manufacturing of the Spring PVC-free soft bags for intravenous injections and the Spring injections. Although the Group's Spring PVC-free soft bags for intravenous injections and Spring injections were awarded "Satisfactory and Favorite Quality Brand for Chinese Consumers" in March 2006 by China's Medium-Light Products Quality Assurance Center and are famous for their reliable quality, with Purarin injections under scrutiny by the government for adverse health effects, hospitals have been more cautious in prescribing the medicines. As a result, sales of the two products dropped 40.1% to HK$30.92 million for the year ended 31 December, 2006.

Tianqingganan injections introduced by NJCTT in April 2004 has been well received by doctors and patients, thereby achieving rapid growth in sales. For the year ended 31 December, 2006, sales of the product amounted to HK$16.82 million, 51.1% more than that of last year.

Another product with huge potential is NJCTT's Tianqingning injections, which was launched in November 2006. This new product is a plasma-volume expander for patients with blood volume deficiencies. As this product can be used as plasma for all blood types, its wide clinical application is expected to provide huge market potential.

Hepatitis medicines

JCTT is responsible for the R&D and manufacture of hepatitis medicines, which recorded stable sales of HK$481.71 million for the year ended 31 December, 2006 and accounted for approximately 65.6% of the Group's turnover. In the "People's Safe Medicine Survey" activity jointly organized by Health Times magazine, China Health magazine, Health Digest magazine and People's Health magazine in 2005, the Group's best selling hepatitis drug, Ganlixin, was named a "Safe Medicine for Everyone", speaking volume to the strong recognition it enjoys among medical practitioners and patients for its therapeutic potency.

JCTT is the largest natural herb Licorice's R&D unit and the largest manufacturer of the medicine in China. Hepatitis medicines made with ingredients extracted from Licorice are commonly used in the industry as they are seen as having the best therapeutic effects in protecting the liver and lowering enzyme levels. Ganlixin injections and capsules, Tianqingganping enteric capsules and Tianqingganmei injections are also extracted from Licorice. Ganlixin injections and capsules is the Group's number 1 hepatitis medicine brand and the second largest profit contributor. After the protection period expired for the medicine, many replica products have emerged into the market, resulting in intensified competition and suppressed sales and prices. Overall sales of the product thus dropped slightly to approximately HK$257.09 million.

As an adequate expedient dosage with good therapeutic effect and intellectual property right protection, Tianqingganping enteric capsules, which was launched in

Ganlixin capsules | Ganlixin injections | Tianqingfuxin capsules | Tianqingfuxin injections | Tianqingganping enteric capsules | Tianqingganmei injections | Mingzheng capsules

May 2004, continued to record persistent sales to reach HK$53.21 million, a growth of 25.8% when compared with last year. The Tianqingganmei injections, also protected by intellectual property right, is specialized in treating severe hepatitis by lowering enzyme level. Launched in November 2005, it reported strong sales of HK$17.96 million for the year. The product is expected to quickly become another "blockbuster drug" of the Group.

Extracted and separated from the Chinese Herb called Sophora Alpecuroides L, Tianqingfuxin injections and capsules are the major products for combating the hepatitis virus. Facing intense market competition and pricing pressure, although sales volume increased 24.7% to last year, sales of the product dropped slightly during the year and totaled at approximately HK$97.25 million. However, as this product is hailed as the number 1 brand of modernized Chinese medicine for fighting hepatitis virus, the Group has full confidence in its prospect.

The Group launched a new patented hepatitis medicine called Mingzheng capsules on 12 July, 2006. A first-tier medicine for combating hepatitis virus in the international market, the product is well received by the market after it was launched. In the latter half year of 2006, its sales reached HK$29.27 million. The Group is very optimistic about the prospect of the product and believes it will become another blockbuster.

JCTT continues to focus strategically on developing the market for the Group's two major hepatitis medicines for liver protection and combating hepatitis virus and to build a strong brand in the two therapeutic areas.

Oncology medicines

The Group's oncology medicines are mainly developed and manufactured by JCTT and NJCTT. They include mainly Tianqingyitai injections and Renyi injections, accounted for 4.8% and 0.6% of the Group's turnover respectively. When it was launched in January 2005, Tianqingyitai injections immediately attracted the attention of medical practitioners and patients. Its sales has been consistently on the rise since then to approximately HK$35.18 million during the year under review, representing a year-on-year increase of 29.2%. With oncology medicines gaining more significance in its product profile, the Group has established a sales team to promote them.

Analgesic medicines

Kaifen injections

In 2005, the Group launched a product line of analgesic medicines, among which the major product is Kaifen injections – the Flurbiprofen Axetie micro-sphere target sustained release analgesic injection, manufactured by Beijing Tide. Produced based on the DDS theory and enabled by advanced target technology, the product is famous for strong pain relieving effect with minimal side effects and has been well received by medical practitioners. The product has been on the growth path since it was launched two years ago. Although analgesic medicines are highly regulated, sales of the product for the year ended 31 December, 2006 still grew to reach approximately HK$15.22 million, 329.3% higher than the amount achieved in the first year after launch.

Diabetic medicines

The Group's diabetic medicines are manufactured by JCTT. The main product in this category for lowering

Tianqingyitai injections

Renyi injections

Taibai sustained release tablets

Beijia tablets

Tianqingzhengshu tablets

blood sugar level is Taibai sustained release tablets, which was launched in 2004. After two years' promotion, the product has secured wide market acceptance. For the year ended 31 December, 2006, sales of this product increased to HK$9.88 million. As a first-tier diabetic medicine in the huge PRC market with more than 30 million diabetics, Taibai sustained release tablets can gradually release the medicine and thus maintain a stable level of blood sugar. The product is expected to record remarkable sales in the future.

Drug Dosage Forms

By dosage forms, the Group's different dosage products are all making expected progress. NJCTT's PVC-free soft bags for intravenous injections are well received by medical practitioners and patients. Other ordinary dosage such as sodium chloride and glucose products, as well as large volume PVC-free soft bags for glucose and sodium chloride injection also achieved an average growth in sales of more than 75.7% against the previous year. The notable growth showed that the Group has the ability to produce the right dosages and products based on market demands. The main dosage forms include small volume injections, capsules, tablets, large volume injections and PVC-free soft bags for intravenous injections, accounted for 33.4%, 30.7%, 2.6%, 10.0% and 10.7% of the Group's sales respectively.

RESEARCH AND DEVELOPMENT

The Group continues to focus R&D efforts on cardio-cerebral, hepatitis, oncology, analgesia, respiratory system, diabetes and digestion system medicines. During the year under review, a total of 65 cases had completed clinical research, under clinical trial or applying for production approval. The Group received 14 production approvals from the SFDA. Currently, 22 cardio-cerebral medicines, 8 hepatitis medicines, 3 oncology medicines, 1 analgesia medicines, 3 respiratory system medicines and 5 diabetic medicines are being developed. The Group has obtained production approvals for 115 medicines.

The Group undertakes self-development and co-development of innovative drugs, and self-development of generic drugs. To enhance its R&D capabilities and accelerate the product development, the Group fully utilizes the society's R&D resources and conducts joint development projects with local and international R&D institutes. Viewing R&D as the foundation for its future development, the Group has invested HK$42.06 million, representing 5.7% of sales income in 2006.

The Group places great importance on intellectual right protection created in the R&D process. It diligently resorts to appropriate legal means to protect those rights, such as applying for invention patent, utility models patent and apparel design patents. It also pays attention to protecting its critical technologies so as to strengthen its competitive edges. During the year, the Group had filed 26 invention patent applications, obtained 24 patents and 39 announced invention patents. The Group owns a total of 34 invention patents, 3 utility model patents, 13 apparel design patents and 262 announced invention patents. The Group has also filed 36 product invention patents, one of which was international patent (PCT) application. Among its main patented products that have promising market potentials are the cardio-cerebral medicine Kaishi injections, Tianqingganmei injections and Mingzheng capsules.

NJCTT's production plant for PVC-free large volume injections

JCTT's capsules production line

Beijing Tide's small volume injections production line

Production workshop of Tianqingganmei injections

In November 2003, the Group was granted a subsidy by the Innovation and Technology Commission of the Hong Kong SAR Government for a study on genetic engineering medicine for hepatitis jointly conducted with the Hong Kong Polytechnic University. The study is progressing smoothly into the application research stage.

FORMATION OF A JOINT VENTURE COMPANY

On 30 August, 2006, the Company through its wholly-owned subsidiary, CTRC, entered into a joint venture agreement with three companies to set up SXEC. The new company will be owned 43% by CTRC at a total contribution of RMB752,500,000. SXEC will refine coal into methanol to low carbon olefin (MTO) chemical products including ethylene and propylene in Yulin City, Shaanxi Province, the PRC.

It is the first coal into olefin project in the PRC and will employ several patented production technologies. Its technical specifications and installation scale are certified to be of international leading levels by the Industrial Association of Chinese Petroleum and Chemical Industry. It will enhance to lower cost than the conventional methods of extracting similar products from petroleum. With the current high level of petroleum price, participation in the project will allow the Group to gain from the growing PRC coal into olefin business which has relatively high profitability. It will continuously boost the Group's profitability.

The joint venture proposal was approved by shareholders at the Company's extraordinary general meeting on 12 October, 2006.

INVESTOR RELATIONS

The Group believes practicing good corporate governance will help to increase transparency of its operation. During the year under review, the Group had arranged various press conferences and investors presentations to keep analysts and fund managers up to date with the latest development of the Group. It also participated in different investor roadshows last year, including the CLSA China Forum, UBS Asian Healthcare Day and Goldman Sach's China Investment Frontier. In addition, the management had meetings with fund managers and analysts regularly to provide them with the latest information of the Group and strengthen investor relations. The Group also posts its annual and interim report, quarterly, interim and annual results announcements, disclosure and circulars on the Company website and the website of The Stock Exchange of Hong Kong Limited. Its aim is to maintain a high degree of transparency in relation to all disclosure of financial and other information.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company had complied with all the Code Provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December, 2006 with the exception of the following deviations:–

1. Code Provision A.2.1 – The Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping is the Chairman and Chief Executive Officer of the Company. The board of Directors (the "Board") considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve a better balance of power and authority, the Chairman discusses important issues and decisions relating to the Group's business with other Executive Directors.

2. Code Provision E.1.2 – The Code Provision provides that the Chairman of the Board should attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Tse Ping, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 5 June, 2006. Mr. Tse Hsin, an Executive Director, was elected in accordance

with the Company's Articles of Association to act as the chairman of the annual general meeting and together with other Directors present at the meeting, answered questions at the annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, it was confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year, the Group's primary source of funds was cash derived from operating activities and disposal of Sino Concept Technology Limited. As at 31 December, 2006, the Group's bank balance and cash in hand was approximately HK$1,684.16 million (2005: approximately HK$1,696.01 million).

CAPITAL STRUCTURE

As at 31 December, 2006, the Group did not have any loan (2005: Nil).

CHARGE ON ASSETS

As at 31 December, 2006, the Group did not have any charges on assets (2005: Nil).

CONTINGENT LIABILITIES

As at 31 December, 2006, the Group had contingent liabilities of HK$8,464,000 (2005: HK$4,970,000).

ASSETS AND GEARING RATIO

As at 31 December, 2006, the total assets of the Group amounted to approximately HK$2,215.11 million (2005: approximately HK$2,140.22 million) whereas the total liabilities amounted to approximately HK$183.61 million (2005: approximately HK$164.98 million). The gearing ratio (total liabilities over total assets) was approximately 8.3% (2005: approximately 7.7%).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December, 2006, the Group had about 2,694 (2005: 2,546) employees. The Group remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme.

Total staff costs (including Directors' remuneration) for the year were HK$128,839,000 (2005: HK$154,312,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate of HK dollars and US dollars is pledged under the fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Sino Biopharmaceutical Limited (the "Company") is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability. For the year ended 31 December, 2006, the Company has applied the principles and complied with the code provisions prescribed in Appendix 14 - Code on Corporate Governance Practices ("CG Code") as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which became effective on 1 January, 2005, except for the deviations from Code Provision A.2.1 and E.1.2, details of which are stated below.

This report describes our corporate governance practices and explains the applications of the principles of the CG Code and deviations (if any).

A. BOARD OF DIRECTORS

BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget should be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management then reports back to the Board and obtains prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an executive board committee, audit committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees' structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. During the year ended 31 December, 2006, apart from the four regular Board meetings, the Board has held an additional meeting for discussion of corporate matters. Notices of regular Board/committee meetings have been given at least 14 days before the date of meeting. For all other Board/committee meetings, reasonable notices have been given.

Minutes of the Board/committee meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on a timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director ("INED") who, and whose associates, have no material interest in the transaction, may be present at such board meeting.

BOARD COMPOSITION

The Board currently consists of ten directors, namely a Chairman and Chief Executive Officer ("CEO"), six Executive directors and three INEDs.

Position		Name
Chairman, CEO and executive director	:	Mr. Tse Ping
Executive directors	:	Mr. Tao Huiqi
		Mr. He Huiyu
		Ms. Cheng Cheung Ling
		Ms. Zhao Yanping
		Mr. Tse Hsin
		Mr. Zhang Baowen
INEDs	:	Mr. Lu Zhengfei ("Mr. Lu")
		Mr. Li Dakui ("Mr. Li")
		Ms. Li Jun ("Ms. Li")

The attributes, skills and expertise among the existing directors have a balance mix of core competencies in areas such as pharmaceutical, accounting and finance, legal, business and management and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and active participating on committees, if invited;
- attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. Tse Ping is both the Chairman and Chief Executive Officer ("CEO") of the Company. The Board considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve a better balance of power and authority, the chairman discusses important issues and decisions relating to the Group's business with other executive directors.

Mr. Tse Ping is the spouse of Ms. Cheng Cheung Ling, an Executive Director of the Company. He and Mr. Tse Hsin, an Executive Director, are cousins. Save as disclosed above, there are no family relationships among members of the Board and between the Chairman and the CEO.

The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Being the CEO of the Company, Mr. Tse is also responsible for managing the Group's business and operations.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

APPOINTMENT, RE-ELECTION AND REMOVAL

Appointment of new directors is a matter for consideration by the Board. It reviews the profiles of the candidates and makes recommendations on the appointment, re-election and retirement of directors. During the year, one Executive Director was appointed by the Board and that the Non-Executive Director has not offered herself for re-election at the annual general meeting on 5 June, 2006. Subsequent to the year-end date of 2006, Mr. Wang Jinyu has resigned as an Executive Director on 1 February, 2007.

The Articles of Association of the Company provides that (1) one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (2) the directors to retire by rotation shall include any director who wishes to retire and not to offer himself for re-election. The retiring directors shall be those who have longest in office since their last re-election or appointment and that all retiring directors are eligible for re-election.

During the year, Mr. Zhang Baowen was appointed as an Executive Director of the Company. He has received induction and reference materials to enable him to familiarise with the Group's history, mission, business operations and the Company's policies. He was briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he was fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company. He has received a "Memorandum on the Duties and Responsibilities of Directors of a Company Listed on the Main Board of The Stock Exchange of Hong Kong Limited" which sets out guidelines on statutory and regulatory requirements.

Each of the Executive Directors are appointed for a term of three years. Each of the INEDs are appointed for a term of two years. All the Directors are subject to retirement by rotation and re-election at the Annual General Meeting ("AGM") of the Company, in accordance with the Articles of Association of the Company.

The names and biographical details of the directors who will offer themselves for election or re-election at the AGM are set out in a circular, which will be despatched together with the annual report accompanying the notice of the meeting, to assist shareholders in making an informed decision on their elections.

Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

COMMITTEES

The Board has established Executive Board Committee ("EBC") and Remuneration Committee ("RC") in October, 2005 with written terms of reference to enable such committees to discharge their functions properly.

Executive Board Committee

The EBC consists of Mr. Tse Ping (Chairman), Ms. Zhao Yanping and Mr. Tse Hsin.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restriction.

Remuneration Committee

The RC consists of Mr. Tse Ping (Chairman), Mr. Lu (INED) and Ms. Li (INED).

The principal functions of the RC include:

- recommending to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determining the basis of the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing the compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his associates is involved in deciding his own remuneration.

The RC has held a meeting during the year to discuss and review the basis for remuneration policy and package for the Group. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The Company has adopted a share option scheme on 8 December, 2003. The share option scheme serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration.

The RC consults the Chairman and the CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

The terms of reference of the RC is available from the Secretary on request and is posted on the Company's website.

Audit Committee

The Audit Committee ("AC") was established on 19 September, 2000. The AC consists of three INEDs, Mr. Lu, Mr. Li and Ms. Li, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 27 June, 2005 in terms substantially the same as the provisions set out in the CG Code.

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which includes:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors, any questions of resignation or dismissal of that auditors;
- discussing with external auditors' independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the quarterly, interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
- reviewing the external auditors' management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised.

The AC has performed the following work during the year 2006:

- reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31 December, 2005 and management letter;
- reviewed with management the quarterly financial statements for the three months ended 31 March, 2006, interim financial statements for the six months ended 30 June, 2006 and the quarterly financial statements for the nine months ended 30 September, 2006;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of Group;
- reviewed the effectiveness of internal control system;
- reviewed the external auditors' statutory audit plan and engagement letter; and
- recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

Minutes of AC are kept by the Secretary. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the AC is available from the Secretary on request and is posted on the Company's website.

BOARD AND COMMITTEE ATTENDANCE

The Board held four regular meetings and an additional meeting in 2006. Details of the attendance of individual director at Board meetings and committee meetings during the year 2006 are set out below:

	No. of meetings attended/held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Tse Ping (Chairman and CEO)	5/5	1/1	N/A
Mr. Tao Huiqi	5/5	N/A	N/A
Mr. Wang Jinyu (resigned on 1 February, 2007)	0/5	N/A	N/A
Mr. He Huiyu	5/5	N/A	N/A
Ms. Cheng Cheung Ling	4/5	N/A	N/A
Ms. Zhao Yanping	5/5	N/A	N/A
Mr. Tse Hsin	5/5	N/A	N/A
Mr. Zhang Baowen (appointed on 11 April, 2006)	5/5	N/A	N/A
Non-Executive Director			
Ms. Josephine Price (retired at the annual general meeting held on 5 June, 2006)	2/5	N/A	N/A
Independent Non-Executive Directors			
Mr. Lu Zhengfei	5/5	1/1	4/4
Mr. Li Dakui	5/5	N/A	4/4
Ms. Li Jun	4/5	1/1	4/4
No. of meetings	5	1	4

SECURITIES TRANSACTIONS BY DIRECTORS/OFFICERS

The Company has adopted a code of securities dealing for directors/senior management/employees (the "Code") on terms no less exacting than the model code for securities transactions by directors of listed issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, as its own code of conduct regarding securities transactions.

Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees as defined in the Code deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit to deal in securities of the Company during the black-out period for compliance with the Code.

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensured the timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim results announcements and reports, quarterly results announcement, other announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and applicable accounting standards.

INTERNAL CONTROLS

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance and risk management functions.

The Group maintain a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors, Messrs Ernst & Young is set out as follows:

	Fee Paid/Payable 2006 (HK$'000)
Services rendered	
Audit Services	770
Non-Audit Services	–

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, quarterly, interim and annual results announcements and circulars made through the Company's and Stock Exchange's websites.

The AGM or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

Code Provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Tse Ping, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 5 June, 2006. Mr. Tse Hsin, an Executive Director, was elected in accordance with the Company's Articles of Association to act as the chairman of the annual general meeting and together with other Directors including the Chairman of the Audit Committee present at the meeting, answered questions at the annual general meeting.

For the year ended 31 December, 2006, apart from the Annual General Meeting of the Company held on 5 June, 2006, the Company had held an Extraordinary General Meeting ("EGM") on 12 October, 2006 for approving the establishment of a joint venture in Shaanxi, the People's Republic of China.

The Chairman of the Board and several Directors were present at the EGM to answer shareholders' questions.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting despatching to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and recorded.

The Chairman of the meeting should at the commencement of the meeting made an explanation for (1) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

The Company regularly releases latest corporate news of the Group's developments on its website at http://www.sinobiopharm.com. The public are welcome to give comments and make enquiries through the Company's website.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December, 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 52 to 128.

The payment for the first quarter dividend of HK$0.01 per ordinary share, the interim dividend of HK$0.01 per ordinary share, and the third quarter dividend of HK$0.01 per ordinary share totaling HK$67,919,000 was paid during 2006.

The directors recommend the payment of a final dividend of HK$0.02 per ordinary share in respect of the year ended 31 December, 2006 to shareholders on Friday, 22 June, 2007 whose names appear on the register of members on Monday, 18 June, 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2006 **HK$'000**	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
CONTINUING OPERATIONS					
TURNOVER	**734,652**	756,073	664,296	456,089	342,610
Cost of sales	**(138,788)**	(139,418)	(133,163)	(105,872)	(73,201)
Gross profit	**595,864**	616,655	531,133	350,217	269,409
Other income and gains	**91,486**	28,599	7,063	8,154	3,389
Selling and distribution costs	**(327,720)**	(310,609)	(253,390)	(176,167)	(152,372)
Administrative expenses	**(121,802)**	(110,866)	(101,885)	(79,396)	(53,550)
Other expenses	**(31,254)**	(42,224)	(33,382)	(18,593)	(13,349)
Finance costs	**(2,205)**	(2,729)	(1,050)	(843)	(418)
Share of profit of an associate	**704**	–	–	–	–
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**205,073**	178,826	148,489	83,372	53,109
Fair value adjustment	**–**	(66,315)	–	–	–
PROFIT BEFORE TAX	**205,073**	112,511	148,489	83,372	53,109
Tax	**(22,106)**	(18,311)	(15,407)	(11,625)	(9,540)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**182,967**	94,200	133,082	71,747	43,569
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	152,213	152,129	78,209	74,842
Gain on disposal of subsidiaries	**–**	1,406,191	–	–	–
Total profit for the year from a discontinued Operation	**–**	1,558,404	152,129	78,209	74,842
PROFIT FOR THE YEAR	**182,967**	1,652,604	285,211	149,956	118,411
Attributable to:					
Equity holders of the parent	**141,172**	1,532,929	168,485	81,636	57,369
Minority interests	**41,795**	119,675	116,726	68,320	61,042
	182,967	1,652,604	285,211	149,956	118,411
TOTAL ASSETS	**2,215,110**	2,140,222	950,535	787,244	593,986
TOTAL LIABILITIES (exclude convertible bonds)	**(183,611)**	(164,978)	(239,845)	(215,531)	(124,653)
CONVERTIBLE BONDS	**–**	–	(42,900)	(78,000)	(46,800)
NET ASSETS	**2,031,499**	1,975,244	667,790	493,713	422,533
MINORITY INTERESTS	**(122,937)**	(121,997)	(211,716)	(156,348)	(129,725)

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment, and investment properties of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 32 and 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was established, 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, redeemed or sold 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 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2006, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of HK$45,279,000 (2005: HK$33,959,000), amounted to HK$1,617,371,000 (2005: HK$1,589,790,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

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

Executive directors:

Mr. Tse Ping	
Mr. Wang Jinyu	(resigned on 1 February, 2007)
Mr. Tao Huiqi	
Mr. He Huiyu	
Ms. Cheng Cheung Ling	
Ms. Zhao Yanping	
Mr. Tse Hsin	
Mr. Zhang Baowen	(appointed on 11 April, 2006)

Non-executive director:

Ms. Josephine Price	(retired on 5 June, 2006)

Independent non-executive directors:

Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Li Jun

In accordance with article 87 of the Company's articles of association, Ms. Cheng Cheung Ling, Ms. Zhao Yanping, Mr. Li Dakui and Ms. Li Jun will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the Company's articles of association.

The Company has received from each of the independent non-executive director an annual confirmation of independence pursuant to the new independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that the Company considers such directors to be independent.

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 42 and 47 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, 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' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2006, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company

			Number of shares held, capacity and nature of interest				
Name of director	Notes	Capacity/Nature of interest	Directly beneficially owned	Through controlled corporations	Through Spouse	Total	Percentage of the Company's issued share capital
Mr. Tse Ping	(1)	Beneficial owner	45,000,000	1,035,488,908	–	1,080,488,908	47.73%
Ms. Cheng Cheung Ling	(2)	Deemed interest	–	–	1,080,488,908	1,080,488,908	47.73%
Mr. Tao Huiqi		Beneficial owner	6,000,000	–	–	6,000,000	0.27%
Mr. Tse Hsin		Beneficial owner	25,800,000	–	–	25,800,000	1.14%
Ms. Zhao Yanping		Beneficial owner	636,000	–	–	636,000	0.03%
Mr. Zhang Baowen		Beneficial owner	1,200,000	–	–	1,200,000	0.05%

Notes:

(1) Mr. Tse Ping held 1,035,488,908 shares through Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping.

(2) Ms. Cheng Cheung Ling is the spouse of Mr. Tse Ping and is therefore deemed to be interested in the same shares in which Mr. Tse Ping has an interest.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Long position in shares of an associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares	Percentage of shareholding
Mr. Tse Hsin	Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (江蘇正大天晴藥業股份有限公司) ("JCTT")	Beneficial owner	173,250	0.18%
	Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (南京正大天晴製藥有限公司) ("NJCTT")	Beneficial owner	39,592	0.78%
Mr. Zhang Baowen	JCTT	Beneficial owner	173,250	0.18%
	NJCTT	Beneficial owner	39,592	0.78%
	Lianyungang Chia Tai Tianyi Medicine Co., Ltd. 連雲港正大天壹醫藥有限公司 ("CT Tianyi")	Beneficial owner	18,624	1.92%

Saved as disclosed above, as at 31 December, 2006, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2006, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long position in shares

Name	Notes	Capacity/Nature of Interest	Number of Underlying shares of the Company	Approximate percentage of issued share capital of the Company
Validated Profits Limited	(1)	Beneficial owner	691,582,348	30.55%
Remarkable Industries Limited	(1)	Beneficial owner	343,906,560	15.19%
The Goldman Sachs Group, Inc.	(2)	Interest of controlled corporations	215,828,000	9.53%
Conspicuous Group Limited		Beneficial owner	142,431,091	6.29%
Chia Tai Development Investment Company Limited	(3)	Interest of a controlled corporation	142,431,091	6.29%
Mr. Dhanin Chearavanont	(4)	Interest of a controlled corporation	142,431,091	6.29%

Notes:

(1) Each of Validated Profits Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Mr. Tse Ping who is a Director.

(2) The 215,828,000 shares were held as to 215,280,000 shares by Goldman Sachs (Asia) Finance ("Goldman Finance") and 548,000 shares by Goldman Sachs International ("Goldman International"). Based on the disclosure of interests filing received by the Company, Goldman Finance is a controlled corporation of Goldman Sachs (Asia) Finance Holdings L.L.C., which in turn is a controlled corporation of Goldman Sachs & Co., which in turn is a controlled corporation of The Goldman Sachs Group, Inc., all of which are deemed under SFO to be interested in the same 215,280,000 shares. Goldman International is a controlled corporation of Goldman Sachs Holdings (U.K.), which in turn is a controlled corporation of Goldman Sachs Group Holdings (U.K.), which in turn is a controlled corporation of Goldman Sachs U.K. L.L.C., which in turn is a controlled corporation of The Goldman Sachs Group Inc., all of which are deemed under SFO to be interested in the same 548,000 shares.

(3) Chia Tai Development Investment Company Limited ("CT Development") has declared an interest in the same 142,431,091 shares in which Conspicuous Group Limited has declared an interest, by virtue of its shareholding in Conspicuous Group Limited.

(4) Mr. Dhanin Chearavanont has declared an interest in the same 142,431,091 shares in which CT Development has declared an interest for the purpose of the SFO as mentioned in Note (3) above, by virtue of his shareholding in CT Development.

Save as disclosed above, as at 31 December, 2006, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors and Chief Executives' interests and short positions in share, underlying shares and debentures" above and in the "Share option scheme" below, 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 directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

In connection with the approval of the listing on the Main Board of the Stock Exchange of, and permission to deal on the Main Board of the Stock Exchange in, the Scheme be and is hereby approved and adopted and the board of directors of the Company be and is hereby authorized to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Scheme including, but without limitation:

(1) to administer the Scheme under which options may be granted to Participants (as defined in the Scheme) to subscribe for Shares;

(2) to modify and/or amend the Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Scheme relating to modification and/or amendment;

(3) to make application at the appropriate time or times to the Stock Exchange, and any other stock exchanges upon which the issued Shares may for the time being be listed, for listing of and permission to deal in any Shares which may hereafter from time to time be issued and allotted pursuant to the exercise of any options granted under the Scheme; and

(4) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Scheme.

CONNECTED TRANSACTIONS

During the year, the Group have the following related party transactions, as further detailed in note 38 to the financial statements, which also constituted continuing connected transactions under the Listing Rules for a term of three years from 1 January, 2006 to 31 December, 2008:-

(i) Purchases of raw materials by JCTT from Jiangsu State Agribusiness Commercial Commodities Limited, a wholly-owned subsidiary of Jiangsu State Agribusiness Group Corporation Limited ("Jiangsu Agribusiness"), which holds a 33.5% equity interest in JCTT.

(ii) Provision of technology development services for certain pharmaceutical products by Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGC"), a 75% subsidiary of the Company to Xian C.P. Pharmaceutical Co., Ltd., a company held as to 60% (indirect) by Mr. Tse Ping, Chairman of the Company.

(iii) Provision of technology development services for certain pharmaceutical products by CTGC to Jiangsu Chia Tai Fenghai Pharmecutical Co., Ltd.("Jiangsu Fenghai"), a company held as to 51% (indirect) by Mr. Tse Ping, Chairman of the Company.

CONNECTED TRANSACTIONS (Continued)

During the year, the Group have entered into the following agreements, which constituted continuing connected transactions under the Listing Rules for a term ending on 31 December, 2007:–

(i) Sale and distribution of certain pharmaceutical products to CT Tianyi, a 60% subsidiary of the Company by JCTT.

(ii) Sale and distribution of certain pharmaceutical products to CT Tianyi by NJCTT, a company held as to 51% by JCTT.

(iii) Sale and distribution of certain pharmaceutical products to CT Tianyi by Jiangsu Fenghai.

(iv) Sale and distribution of certain pharmaceutical products to CT Tianyi by Jiangsu Qing Jiang Pharmaceutical Co., Ltd., a company held as to 39.2% by Jiangsu Agribusiness.

During the year, JCTT, a 60% subsidiary of the Company, had entered into an agreement with Chia Tai Pharmaceutical (Lianyungang) Company Limited, a wholly-owned subsidiary of the Company, Lianyungang Runzi Consultation Centre and Jiangsu Juxin Investment Management Corporation Limited, a company held as to 51% by Jiangsu Agribusiness in relation to the acquisition of the entire interest in CT Tianyi at a total consideration of RMB8,600,000 (approximately HK$8,256,000).

The independent non-executive directors have reviewed the terms and transactions and conformed to the Board of Directors that, in their opinion, the transactions, and the arrangements governing those transactions, are entered into by the relevant members of the Group in the ordinary and usual course of business and on normal commercial terms, and were fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2006.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below.

Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian"), Ankang Chia Tai Pharmaceutical Co., Ltd. ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC"), ABH Nature's Products Inc. ("ABH"), Jiangsu Fenghai and Yancheng Suhai Pharmaceutical Co., Ltd. ("Yancheng Suhai").

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Continued)

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Ankang is principally engaged in the production and distribution of a medicine reducing blood-fat level, gynaecomastia medicines, medicines for treating cardiovascular disease and other chemical medicines. CT Ankang acquired a PRC pharmaceutical company which has one product for the treatment of cardiovascular namely, Puerain injections which may compete with an existing product namely, Spring (Puerain glucose injections) produced by the Group. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States. Jiangsu Fenghai is principally engaged in the production and distribution of drug producted and sythetic raw drug. Yancheng Suhai is principally engaged in the production and distribution of raw drug of anti-biotics.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group.

Mr. Tse Ping has executed a deed of non-competition undertaking (the "Undertaking") in favour of the Company on 9 September, 2003 which has become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange.

Pursuant to the Undertaking, Mr. Tse Ping has undertaken to the Company that, conditional upon the commencement of trading in the shares on the Main Board, for so long as (i) Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30 per cent. of the voting rights of the Company (from time to time), and (ii) the shares shall remain traded on the Main Board, neither Mr. Tse Ping nor any of Mr. Tse's Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (saved through Mr. Tse's interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the Undertaking:–

"Mr. Tse's Company(ies)" refers to any of the companies or other entities of which more than 50 per cent. of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature;

"Restricted Business" refers to:–

(i) the research and development, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernized Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and

(ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases; and

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Continued)

"Territory" refers to the PRC (including Hong Kong).

The Undertaking does not apply to the following:

(i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;

(ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse Ping and/or his associates do not amount to more than 20 per cent. of the issued shares or other securities of the company in question; and

(iii) the investment by Mr. Tse Ping and/or Mr. Tse's Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse or Mr. Tse's Company, in either case in accordance with paragraph below.

In the event that Mr. Tse Ping or any Mr. Tse's Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which CT Xian and/or HTPC is/are engaged as at the date of the Undertaking) (the "Proposed Business"), Mr. Tse will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse and/or any Mr. Tse's Company shall be provided to the Company. The Independent Non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:–

(i) reject the said opportunity in its entirety; or

(ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or

(iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse Ping (including through a Mr. Tse's Company) takes up the balance of the investment upon terms approved by the Independent Non-executive Directors.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

EMOLUMENT POLICY

Including the Directors, the Group had around 2,694 employees as at 31 December, 2006. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as share option scheme.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December, 2006, with the exception of the following deviations:-

1. Code Provision A.2.1 – The Code Provisions stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping is the chairman and chief executive officer of the Company. The Board considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve a better balance of power and authority, the chairman discusses important issues and decisions relating to the Group's business with other Executive Directors.

2. Code Provision E.1.2 – The Code Provision provides that the Chairman of the Board should attend the annual general meeting of the Company. Due to the unexpected business commitment, Mr. Tse Ping, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 5 June, 2006. Mr. Tse Hsin, an Executive Director, was elected in accordance with the Company's Articles of Association to act as the chairman of the annual general meeting and together with other Directors present at the meeting, answered questions at the annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, it was confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of the independent non-executive directors ("INEDs") and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three INEDs including one with financial management expertise, details of their biographies were set out in the 2006 annual report.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code on Corporate Governance Practices. The primary duties of the Committee are to review the Company's annual and interim report and accounts, and quarterly results and to provide advice and comments thereon to the board of directors. The Committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Committee has three members comprising the three INEDs, Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

The Group's financial statements for the year ended 31 December, 2006 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

Ernst & Young retire 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

Tse Ping
Chairman

PRC
3 April, 2007

DIRECTORS

Executive Directors

Mr. Tse Ping (謝炳先生), aged 55, is the Founder, Chairman and CEO of the Company. He is responsible for the overall operations of the Group. With more than 16 years of pharmaceutical related investment and management experience, Mr. Tse was formerly the vice-chairman of Shenzhen 999 Pharmaceutical Co., Ltd. (深圳三九藥業有限公司), and was involved in the management of Hainan Qingqihaiyao Stock Company Limited (海南輕騎海藥股份有限公司) (formerly known as Hainan Pharmaceutical Industrial Joint-Stock Company Limited (海南海藥實業股份有限公司), and is now listed on the Shenzhen Stock Exchange in the PRC, Mr. Tse was also the chairman of CTQ which is now a subsidiary of SIIC Medical and the executive chairman of TM International Bank Co., Ltd, based in Shanghai. Mr. Tse is also the Chairman of Xian C. P. Pharmaceutical Co. Ltd., a director of CTQ, a committee member of the Association of Pharmaceutical Biotechnology of China and an honoral professor of Shenyang University of Pharmacy. Beyond the pharmaceutical and biotechnology fields, Mr. Tse is the vice-chairman of Chia Tai Enterprises International Limited, an investment holding company listed on the Main Board. He is also a member of the Ninth and the Tenth National Committee of the Chinese People's Political Consultative Conference (CPPCC).

Mr. Tao Huiqi (陶惠啟先生), aged 57, is responsible for the general operations of JCTT and NJCTT. He joined the Group in April 1997 and is the vice chairman and president of JCTT. He is a university graduate and senior economist. Mr. Tao has extensive experience in managing pharmaceutical companies. He has been awarded the title of an "Outstanding Entrepreneur" by the China Pharmaceutical Enterprises Management Association, Association of Entrepreneur Medicine of China and the State Medicine Commission, the Jiangsu Economic Planning Commission, and Jiangsu Pharmaceutical Administration, respectively.

Mr. He Huiyu (何惠宇先生), aged 63, joined the Company as an executive director in January 2005. He graduated from the medical department in Hunan Medical College in 1968. He is a chief doctor, professor, researcher, and a director of Beijing Tide, a jointly-controlled entity of the Company. Mr. He has over 35 years experience in clinical medical treatment, scientific research management, and integrated traditional Chinese Medicine and Western medicine and clinical research and development. He has been the chairman of Hunan Hengyang Traditional Chinese Medicine and Western Medicine Integration Hospital and Hunan Hengyang Central Hospital, chief executive of the Bureau of Chinese Pharmaceutical Management and the chairman of China-Japan Friendship Hospital.

Ms. Cheng Cheung Ling (鄭翔玲女士), aged 42, joined the Company as an executive director in January 2005. She is an executive director of the Company. Ms. Cheng is a medical practician graduated from Medical Profession College. She is responsible for the public relation affairs of the Group. She is also the committee member of China Overseas Friendship Association, a vice chairlady of the Shaanxi Province Federation of Industry and Commerce, and a member of the Standing Committee of the Chinese People's Political Consultative Conference Shaanxi Provincial Committee. She is the spouse of Mr. Tse Ping, both the executive director and substantial shareholder of the Company.

Ms. Zhao Yanping (趙艷萍女士), aged 44, is an executive director and a vice president of the Company. She is principally responsible for the Group's day-to-day administration. Ms. Zhao joined the Group in September 1992. Ms. Zhao graduated from the Shenyang Pharmaceutical College with a degree in science and completed the Master of Business Administration (MBA) courses in the Business Administration department in Dalian University of Technology. She was the executive director of CTF, and a visiting professor of Shenyang University of Pharmacy. She was the general manager of the research and development department of the Group. She is an editorial board member of Economic Report of Medicine and China Prescription Drug. Ms. Zhao has over 20 years of experience in the pharmaceutical industry.

Mr. Tse Hsin (謝炘先生), aged 37, is an executive director and a vice president of the Company. He is mainly responsible for the acquisition and merger of the Group. He is also the Group's spokesman and the general manager of the audit department. Mr. Tse graduated from the University of Hong Kong with a bachelor degree in industrial engineering. He joined the Group in August 1995 as an assistant to the President of the Company and served as the Managing Director of Xian C.P. Pharmaceutical Co., Ltd. for the period from July 1996 to June 2000. In 1999, he was awarded the "Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province" by the Shaanxi Provincial Government. He is also an executive director of Beijing Tide, a director of JCTT, Xian C.P. Pharmaceutical Co., Ltd. and Ankang Chia Tai Pharmaceutical Co., Ltd.. Mr. Tse is a council member of the first council of the Chaozhou Natives Chamber of Commerce Beijing and is the vice chairman of Foreign-invested Enterprises Association of Shaanxi Province. He is a cousin of Mr. Tse Ping and the brother of Ms. Tse Wun, a senior management of the Company.

Mr. Zhang Baowen (張寶文先生), aged 50, is a vice president and a senior engineer of the Company, and principally responsible for the Group's business development and management. He is a graduate of the Shenyang Pharmaceutical University with a bachelor degree in science. Mr. Zhang joined the Group in October 1994 and has extensive experience in the pharmaceutical industry. Mr. Zhang was previously appointed as the head of the Group's investment division. He is currently an executive director of JCTT, NJCTT and CTGC. Mr. Zhang is a member of the 20th and 21st committee of the China Medicine Association. He has over 20 years of experience in the pharmaceutical industry.

Independent non-executive Directors

Mr. Lu Zhengfei (陸正飛先生), aged 43, is a chairman of the audit committee and a member of the remuneration committee. He received P.h.D. degree in economics with concentration in financial management. Mr. Lu is currently the Professor and Chairman of the Department of Accounting and supervisor of doctoral students, Guanghua School of Management of Peking University. He has previously held various senior positions in the Department of Accounting of both Peking University and Nanjing University. He is the consulting expert of the China Financial Accounting Standards Board, Ministry of Finance. He is also a member and director of the China Accounting Association and China Auditing Association. Mr. Lu is the editor of several accounting and finance journals and he has issued various publications. He is an independent non-executive director of PICC Property and Casualty Company Limited and Sinotrans Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited. In addition, Mr. Lu is also the independent non-executive director of CITIC Offshore Helicopter Co. Ltd, a company whose shares are listed on the Shenzhen Stock Exchange.

Mr. Li Dakui (李大魁先生), aged 62, joined the Company as an independent non-executive director and a member of audit committee in September 2004. He was graduated from the Faculty of Pharmacy of the Beijing Medical University. In 1983, he obtained a Master degree in Pharmaceutics from Peking Union Medical College ("PUMC") and was a director of Pharmacy Department of PUMC Hospital. Mr. Li is also a member of the American Society of Health-System Pharmacists, a vice president of Chinese Pharmaceutical Association, the Chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association, a vice editor of Chinese Hospital Pharmaceutical Journal and Chinese Journal of Hospital Pharmacy, a member of the Drug Evaluation Committee of State Food and Drug Administration of China. Mr. Li is a member of advisory committee on safety of medicinal products meeting organized by World Health Organization.

Ms. Li Jun (李軍女士), aged 38, joined the Company as an independent non-executive director and a member of the audit committee in January 2005. She is also a member of the remuneration committee. She obtained a Bachelor degree in International Law from Fudan University (Law Department) and a Master Degree in Economic Law from Peking University (Law Department). She has been qualified as a PRC lawyer since 1992. She has also studied at SOAS, London. Ms. Li joined Zong Heng Law Firm, Beijing as one of the founding partners in 1993. She has previously worked with Joseph & Chan, Hong Kong and Clifford Chance, Hong Kong as a senior PRC lawyer. She has extensive experience in various areas of litigation, arbitration and dispute resolution work, mainly commercial disputes, civil tort and administrative disputes.

SENIOR MANAGEMENT

Ms. Leung Sau Fung, Fanny (梁秀鳳女士), is the assistant vice president and the company secretary of the Company. She joined the Group in 1992. She is responsible for overseeing the corporate compliance of the Group's listed and statutory issues. She obtained a Honours Diploma in Company Secretaryship and Administration. She is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Before joining the Group, Ms. Leung worked in the Company Secretarial Department of an international audit firm.

Ms. Yu Chau Ling (余秋玲女士), is the financial controller and qualified accountant of the Company. She graduated from the University of Hong Kong with a bachelor degree in Social Sciences and obtained the MBA degree from The Open University of Hong Kong in 2005. She is the fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants respectively. Ms. Yu joined the Company in February 2003 and has working experience in the international audit firm and listed companies.

Ms. Chen Xiaofeng (陳曉楓女士), aged 53, is the officer of audit division of the Company. She is principally responsible for the Group's internal audit issues. Ms. Chen joined the Group in November 1993 and was the manager of the investment division, deputy controller of the accounting division, controller of the finance and accounting division and the financial controller in the PRC. She was a director of CTF and is a director of Beijing Tide and NJCTT. Ms. Chen is a certified accountant in the PRC and has over 25 years of experience in accounting and finance.

Ms. Cheng Hui (程惠女士), aged 43, is the deputy financial controller of the Group. Ms. Cheng joined the Group in May 1993 and is responsible for the Group's PRC financial and personnel issues. She has been the head of the finance department in China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 20 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel in 1992, and ACCA Chinese finance and accounting qualification certificate issued by Chartered Association of Certified Accountants. Ms. Cheng received international advanced human resources management professional training held by the International Public Management Association for Human Resources (IPMA-HR).

Ms. Li Mingqin (李名沁女士), aged 48, is the general manager of the Group's R&D division in the Beijing Representative Office, the director and deputy general manager of CTGC and the director of Beijing Tide. She is principally responsible for the research and development of new medicines for the Group. Ms. Li graduated from the Faculty of Medicine of the Beijing Chinese Medicine University with a bachelor degree in medicine. Prior to joining the Company, Ms. Li has worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in the teaching of medicines, R&D of new medicines and medicines management. During the period from 1992 to 1995, Ms. Li has been engaged in Post-doctorate research in the Medicine School of University of Colorado, USA and the Medical College in the University of Massachusetts. Ms. Li joined the Group in March 1997 and she has more than 20 years of experience in the pharmaceutical industry.

Ms. Dong Ping (董萍女士), aged 38, is the general manager of finance and accounting division of the Company. Ms. Dong joined the Group in June 2000. She graduated from the Economic Management Department of Beijing Youth Politics College. She also holds Certificate of Completion of Executive MBA Programme for Marketing Management of Pharmaceutical Industry jointly awarded by Beijing Asia-Pacific Education Centre and Social Development Research Institute, and Beijing Qunyin Enterprise Management Corporation Ltd.. Ms. Dong has been the deputy manager of the financial division of the Group, the deputy general manager of Finance and accounting division of Xian Chia Tai Pharmaceutical Co. Ltd. and the assistant to the Financial Controller of the Company in the PRC. Ms. Dong has about 15 years of experience in accounting and finance, and is a certified accountant in China.

Mr. Sun Jian (孫鍵先生), aged 45, is the general manager of CT Tianyi. Mr. Sun joined the Group in April 1997 and has extensive experience in sales and production management. Mr. Sun was a senior vice president of JCTT. He graduated from Nanjing Polytechnic Institute with a degree in engineering. He has over 20 years of experience in pharmaceutical industry.

Mr. Tian Zhoushan (田舟山先生), aged 43, joined the Group in April 1997 and is responsible for the business of NJCTT. Mr. Tian is a vice president of JCTT and the general manager of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the production manager, and assistant to the president of JCTT. Mr. Tian has 20 years of experience in the pharmaceutical industry.

Mr. Li Jinming (李金明先生), aged 42, is the deputy general manager of CT Tianyi. Mr. Li studied in the pharmaceutical major of Chinese Pharmaceutical University. Mr. Li holds the MBA degree awarded jointly by Huadong University of Science and Technology and America University of Management and Technology. Mr. Li has over 10 years experience as major district manager in pharmaceutical sales in two well-known pharmaceutical enterprises in China. He was the major district manager of JCTT for five years. Mr. Li has extensive sales and management experience.

Mr. Qu Yunzhi (曲韵智先生), aged 51, joined the Group in October 2002 and is responsible for the business of CTGC. He is the vice chairman and the general manager of CTGC. He obtained a Master degree in medical science in Inner Mongolia Medical University. Mr. Qu was the chairman of Hohhot Natural Pharmacy Industrial Research Institute. Mr. Qu has 25 years of experience in the scientific research of medicines and has expertise in R&D of dripping pills.

Mr. Tang Zhaocheng (唐兆成先生), aged 40, is a vice president of JCTT. He is responsible for the production management of JCTT. Mr. Tang joined JCTT in April 1997. He has a professional qualification in chemical engineering. Mr. Tang has been a vice officer in technological production, and a manager in quality control as well as a chief officer in GMP and assistant to president of JCTT. He has been a team leader in the production of Ganlixin and Zegui Longshuang in JCTT. Mr. Tang has over 15 years of experience in the pharmaceutical industry.

Mr. Wang Hong (王宏先生), aged 43, is a deputy general manager of CT Tianyi and is responsible for the sales management. Mr. Wang graduated from Shanghai Medical University in 1991 with a Master degree in medical science. He also holds an MBA degree from the Business School of the National University of Singapore. He was the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. where he had worked for 8 years. Mr. Wang has more than 10 years of experience in sales and he joined the Group in December 2002, he was a vice president of JCTT and was responsible for sales management.

Mr. Zhang Xiquan (張喜全先生), aged 37, is the chief engineer of JCTT. Mr. Zhang graduated from Nankai University in 1994 with a M.S. degree. He has carried out studies of a number of new drugs with expertise in drug candidate selection and drug development with partners. Mr. Zhang joined JCTT in April 1997.

Ms. Gu Liping (顧莉萍女士), aged 45, is a vice president of JCTT. She is principally responsible for the public relation affairs for JCTT. She graduated from the department of chemistry of Nanjing University and holds a M.S. degree. Ms. Gu is a senior engineer and she joined the Group in December 2001. She was the vice director of the finance division of Jiangsu Agribusiness and the deputy general manager of Jiangsu Juxin Investment Management Company Limited.

Mr. Zhang Xichang (張夕昌先生), aged 65, is a senior advisor of JCTT. Mr. Zhang has been a workshop officer, deputy factory director and vice president of JCTT and was responsible for the production, sales, finance and R&D of JCTT. Mr. Zhang has over 30 years experience in pharmaceutical enterprise management. Mr. Zhang joined the Group in April 1997.

Ms. Wu Ruizhen (吳瑞珍女士), aged 59, is a deputy general manager and financial controller of CT Tianyi. She graduated from Gansu Television Broadcast University with a degree in industrial accounting. Ms. Wu joined the Group in January 1997 and was a vice president of finance and accounting division of JCTT and a senior advisor of JCTT. Ms. Wu has over 30 years of experience in finance.

Dr. Ye Wei Nong (葉衛農博士), aged 44, is the assistant president of the Company and deputy general manager of the technology department. He is responsible for the Group's development on Biotechnology. Dr. Ye graduated from Zhongshan (Dr. Sun Yat-Sen) University with a bachelor degree in science. In 1989, Dr. Ye obtained a doctoral degree (Ph. D.) in microbiology in Institut National des Sciences Appliquees de Toulouse of France. He also obtained a certificate of study for Masters specialised in marketing and food technology in Ecole Superieure de Commerce de Toulouse of France. Prior to joining the Group in July 2002, Dr. Ye worked in Europe and Hong Kong for biotechnology and pharmaceutical companies.

Ms. Chia Fai (謝輝女士), aged 49, is an assistant to the chairman of the Company and personnel manager. Ms. Chia joined the Group in November 1991 and has more than 20 years of experience in financial area. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Co., Ltd., Talent Forward Ltd., Sino Biopharmaceutical (Beijing) Ltd. and Magnificent Technology Ltd. She is a sister of Mr. Tse Ping.

Ms. Tse Wun (謝瑗小姐), aged 40, is an assistant to the chairman of the Company. She joined the Group in November 1991. She is principally responsible for the Group's administration and financial matters in Hong Kong. Ms. Tse graduated from the University of Oregon with a B.S. degree. She was formerly a director of Shenzhen 999 Pharmaceutical Co., Ltd. and has 10 years of experience in finance and investment. She is a cousin of Mr. Tse Ping.

Ms. Li Chun Ling (李春玲女士), aged 35, is a vice president of JCTT. She is responsible for the financial and accounting affairs of JCTT. Ms. Li joined the Group in February 1996 and was a manager in the audit department and finance and accounting department of the Group. Ms. Li graduated from Guizhou College of Finance and Accounting. Before joining the Group, Ms. Li had worked in audit firms and as a team in-charge for social auditing of projects. Ms. Li has over 10 years experience in finance and accounting, and is a certified accountant in the PRC.

Mr. Lu Yuehui (呂月輝先生), aged 53, is the financial controller and a deputy general manager NJCTT. He joined the Group in February, 1995. Mr. Lu graduated from the Department of Foreign Language Department in Beijing Hongqi University and Department of Accountancy in Beijing Finance and Trade Institute. He was an instructor of the Department of Accountancy in Beijing Economic Management Cadre College. Mr. Lu has been the manager of audit department and manger of finance and accountancy in the Group. Mr. Lu has 25 years of experience in finance and accounting profession and is a qualified accountant.

Mr. Zhang Zhenqian (張震乾先生), aged 37, is the deputy general manager and an engineer of NJCTT. Mr. Zhang joined the Group in April 1997 and is responsible for the sales and operation of NJCTT. Graduated from Xuzhou College of Engineering, Mr. Zhang has completed the studies in EMBA program in Guanghua Management School in Beijing University. Mr. Zhang has over ten years experience in pharmaceutical industry and was a branch manager, major district manager of JCTT.

Mr. Tse Hsuan, Johnny (謝炫先生), aged 37, is the deputy general manager of the company's Information Management Department. He joined the Group in January 2003. He is principally responsible for the development and maintenance of information system for the Company. Mr. Tse graduated from the University of Oregon with a B.S. degree in computer science in the United States. He also graduated from ESMOD Paris (Ecole International de Mode Paris) with a diploma in fashion design and pattern drafting. Before joining the Company, Mr. Tse worked in Beijing Major Kind Co., Ltd. engaged in fashion design and computer system maintenance. His design of uniform for air attendants was adopted by Air China. He is a cousin of Mr. Tse Ping.

Mr. Wang Yonggan (王永干先生), aged 29, is the assistant to the Company's financial controller in the PRC. Mr. Wang studied in the department of economics with concentration in accounting at Shandong University of Science and Technology and graduated with a Bachelor degree in economics. In September 1999 Mr. Wang joined the Group and was the deputy manager in the finance and accounting division of JCTT, and was the financial manager of the Company. Mr. Wang holds China's Certified Public Accountant certificate and Registered Tax Agent certificate.

Mr. Jiang yi (蔣誼先生), aged 40, is the deputy general manager of the investment management department of the Company. Mr. Jiang joined the Group in March 2004 and is principally responsible for new project investment and management. Mr. Jiang graduated from The Third Military Medical University with a Bachelor degree in medical science. Mr. Jiang has been the regional business manager and national business manager for about nine years in China representative offices of foreign pharmaceutical enterprises. He has about 14 years of experience in sales and marketing in pharmaceutical industry.

Mr. Shen Xiaoguang (沈曉光先生), aged 35, is the deputy general manager of the investment management department of the Company. Mr. Shen participates in the business development and management of the Group, and is responsible for the market analysis of main products and R&D of new products. Mr. Shen graduated from the Heilongjiang College of Business with a B.S. degree in pharmaceutical manufacturing, and has about 10 years experience in pharmaceutical sales and marketing and product R&D. Mr. Shen joined the Group in February 2003.

CORPORATE INFORMATION

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors

Mr. Tse Ping *(Chairman)*
Mr. Tao Huiqi
Mr. He Huiyu
Ms. Cheng Cheung Ling
Ms. Zhao Yanping
Mr. Tse Hsin
Mr. Zhang Baowen

Independent non-executive Directors

Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Li Jun

AUDIT COMMITTEE

Mr. Lu Zhengfei *(Chairman)*
Mr. Li Dakui
Ms. Li Jun

REMUNERATION COMMITTEE

Mr. Tse Ping *(Chairman)*
Mr. Lu Zhengfei
Ms. Li Jun

COMPANY SECRETARY

Ms. Leung Sau Fung, Fanny

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUTHORISED REPRESENTATIVES

Mr. Tse Ping
Ms. Leung Sau Fung, Fanny

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
166 Hennessy Road
Wanchai
Hong Kong

Agricultural Bank of China, Lianyungang Branch
No. 43 North Tong-guan Road
Xinpu, Lianyungang
Jiangsu Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:
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Grand Cayman
British West Indies

As to PRC Law:
Navigator Law Office
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Dong Cheng Districts
Beijing
PRC

AUDITORS

Ernst & Young
Certified Public Accountants
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8 Finance Street
Central
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

TO THE SHAREHOLDERS OF SINO BIOPHARMACEUTICAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Sino Biopharmaceutical Limited set out on pages 52 to 128, 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 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our 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 this 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 auditors' 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 auditors consider 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 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 Hong Kong Companies Ordinance.

Hong Kong
3 April, 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December, 2006

	Notes	2006 HK$'000	2005 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**734,652**	756,073
Cost of sales		**(138,788)**	(139,418)
Gross profit		**595,864**	616,655
Other income and gains	5	**91,486**	28,599
Selling and distribution costs		**(327,720)**	(310,609)
Administrative expenses		**(121,802)**	(110,866)
Other expenses		**(31,254)**	(42,224)
Finance costs	7(a)	**(2,205)**	(2,729)
Share of profit of an associate		**704**	–
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT		**205,073**	178,826
Fair value adjustment	7(b)	**–**	(66,315)
PROFIT BEFORE TAX	6	**205,073**	112,511
Tax	10	**(22,106)**	(18,311)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**182,967**	94,200
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	12	**–**	152,213
Gain on disposal of subsidiaries	12	**–**	1,406,191
Total profit for the year from a discontinued operation		**–**	1,558,404
PROFIT FOR THE YEAR		**182,967**	1,652,604
Attributable to:			
Equity holders of the parent	14	**141,172**	1,532,929
Minority interests		**41,795**	119,675
		182,967	1,652,604
DIVIDENDS	13		
Interim		**67,920**	216,592
Proposed final		**45,279**	33,959
		113,199	250,551

	Notes	2006 HK$'000	2005 HK$'000
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic			
– For profit for the year		**HK6.24 cents**	HK69.39 cents
– For profit from continuing operations		**HK6.24 cents**	HK1.93 cents
Diluted			
– For profit for the year		**HK6.24 cents**	HK69.39 cents
– For profit from continuing operations		**HK6.24 cents**	HK1.93 cents

CONSOLIDATED BALANCE SHEET

31 December, 2006

	Notes	**2006 HK$'000**	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**237,955**	198,662
Prepaid land lease payments	16	**16,541**	7,438
Goodwill	17	**42,031**	41,948
Other intangible assets	18	**19,343**	3,802
Interests in an associate	21	**5,189**	–
Available-for-sale investments	22	**29,820**	29,820
Deferred tax assets	31	**4,244**	3,647
Total non-current assets		**355,123**	285,317
CURRENT ASSETS			
Inventories	23	**40,877**	44,339
Trade and notes receivables	24	**112,268**	102,013
Prepayments, deposits and other receivables	25	**20,488**	11,446
Due from related companies	38	**2,192**	1,094
Cash and cash equivalents	26	**1,684,162**	1,696,013
Total current assets		**1,859,987**	1,854,905
CURRENT LIABILITIES			
Trade payables	27	**23,868**	20,559
Other payables and accruals	28	**136,249**	133,688
Tax payable		**9,873**	7,146
Due to related companies	38	**917**	1,181
Total current liabilities		**170,907**	162,574
NET CURRENT ASSETS		**1,689,080**	1,692,331
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,044,203**	1,977,648

Consolidated Balance Sheet

31 December, 2006

	Notes	2006 HK$'000	2005 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,044,203**	1,977,648
NON-CURRENT LIABILITIES			
Deferred government grants	29	**7,475**	–
Deferred tax liabilities	31	**5,229**	2,404
Total non-current liabilities		**12,704**	2,404
Net assets		**2,031,499**	1,975,244
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	32	**56,599**	56,599
Reserves	34(a)	**1,806,684**	1,762,689
Proposed final dividend	13	**45,279**	33,959
		1,908,562	1,853,247
Minority interests		**122,937**	121,997
Total equity		**2,031,499**	1,975,244

Ms. Zhao Yanping
Director

Mr. Tse Hsin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December, 2006

		Attributable to equity holders of the parent											
	Notes	Issued share capital HK$'000 (note 32)	Share premium account HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Contributed surplus HK$'000	Reserve funds HK$'000 (note 34(a))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 (note 13)	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January, 2006													
As previously reported		56,599	281,846	17,520	7,961	22,419	67,885	5,841	1,359,217	33,959	1,853,247	121,997	1,975,244
Transfer to retained profits arising from disposals of subsidiaries	12, 41	-	-	-	-	(1,676)	-	-	1,676	-	-	-	-
As restated		56,599	281,846	17,520	7,961	20,743	67,885	5,841	1,360,893	33,959	1,853,247	121,997	1,975,244
Exchange realignment		-	-	-	-	-	4,661	8,845	-	-	13,506	-	13,506
Total income and expense recognised directly in equity		-	-	-	-	-	4,661	8,845	-	-	13,506	-	13,506
Net profit for the year		-	-	-	-	-	-	-	141,172	-	141,172	41,795	182,967
Total income and expense for the year		-	-	-	-	-	4,661	8,845	141,172	-	154,678	41,795	196,473
Capital contribution by minority interests of a subsidiary		-	-	-	-	-	-	-	-	-	-	3,112	3,112
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	-	(45,376)	(45,376)
Final 2005 dividend declared	13	-	-	-	-	-	-	-	-	(33,959)	(33,959)	-	(33,959)
Interim 2006 dividend paid to equity shareholders	13	-	-	-	-	-	-	-	(67,920)	-	(67,920)	-	(67,920)
Proposed final 2006 dividend	13	-	-	-	-	-	-	-	(45,279)	45,279	-	-	-
Surplus on revaluation of buildings		-	-	-	2,516	-	-	-	-	-	2,516	1,409	3,925
Transfer from/(to) retained profits		-	-	-	-	-	10,731	-	(10,731)	-	-	-	-
At 31 December, 2006		56,599	281,846*	17,520*	10,477*	20,743*	83,277*	14,686*	1,378,135*	45,279	1,908,562	122,937	2,031,499

Consolidated Statement of Changes in Equity

Year ended 31 December, 2006

	Notes	Attributable to equity holders of the parent										Minority interests	Total equity
		Issued share capital HK$'000 (note 32)	Share premium account HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Contributed surplus HK$'000	Reserve funds HK$'000 (note 34(a))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 (note 13)	Total HK$'000	HK$'000	HK$'000
At 1 January, 2005		34,428	131,481	28,924	6,549	52,605	77,980	(179)	19,517	55,084	406,389	211,716	618,105
Exchange realignment		–	–	–	–	–	2,314	8,536	–	–	10,850	–	10,850
Total income and expense recognised directly in equity		–	–	–	–	–	2,314	8,536	–	–	10,850	–	10,850
Net profit for the year		–	–	–	–	–	–	–	1,532,929	–	1,532,929	119,675	1,652,604
Total income and expense for the year		–	–	–	–	–	2,314	8,536	1,532,929	–	1,543,779	119,675	1,663,454
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(104,667)	(104,667)
Disposal of subsidiaries	12	–	–	–	–	–	–	–	–	–	–	(106,226)	(106,226)
Final 2004 dividend declared		–	–	–	–	–	–	–	–	(55,084)	(55,084)	–	(55,084)
Issue of shares		20,666	(7,346)	–	–	–	–	–	–	–	13,320	–	13,320
Exercise of convertible bonds	30	1,505	157,711	–	–	–	–	–	–	–	159,216	–	159,216
Interim 2005 dividend paid to equity shareholders	13	–	–	–	–	(30,186)	–	–	(73,207)	–	(103,393)	–	(103,393)
Special dividend paid to equity shareholders	13	–	–	–	–	–	–	–	(113,199)	–	(113,199)	–	(113,199)
Proposed final 2005 dividend	13	–	–	–	–	–	–	–	(33,959)	33,959	–	–	–
Surplus on revaluation of buildings		–	–	–	2,219	–	–	–	–	–	2,219	1,499	3,718
Transfer from/(to) retained profits		–	–	(11,404)	(807)	–	(12,409)	(2,516)	27,136	–	–	–	–
At 31 December, 2005		56,599	281,846*	17,520*	7,961*	22,419*	67,885*	5,841*	1,359,217*	33,959	1,853,247	121,997	1,975,244

* These reserve accounts comprise the consolidated reserve of HK$1,806,684,000 (2005: HK$1,762,689,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December, 2006

	Notes	**2006** HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**205,073**	112,511
From a discontinued operation	12	**–**	177,349
Adjustments for:			
Finance costs	7	**2,205**	3,461
Fair value adjustment to embedded derivative of convertible bonds	7	**–**	66,315
Share of profit of an associate	21	**(704)**	–
Acquisition of interest in an associate	21	**(4,485)**	–
Interest income	5	**(80,648)**	(21,358)
Dividend income from an unlisted investment	5	**(5,712)**	(7,520)
Depreciation	15	**21,267**	29,384
Recognition of prepaid land lease payments	16	**300**	727
Amortisation of patents and licenses	18	**771**	1,595
Loss/(gain) on disposal of property, plant and equipment		**3,481**	(88)
(Surplus)/deficit on revaluation of buildings		**(122)**	122
		141,426	362,498
Decrease/(increase) in inventories		**3,462**	(14,207)
(Increase) in trade receivables		**(10,255)**	(90,348)
(Increase) in prepayments, deposits and other receivables		**(8,965)**	(19,960)
(Increase) in due from related companies		**(1,098)**	(357)
Increase in trade payables		**3,309**	11,886
Increase in other payables and accruals		**2,561**	62,198
(Decrease) in due to related companies		**(264)**	(2,308)
Cash generated from operations		**130,176**	309,402
Mainland China profits tax paid		**(17,920)**	(45,673)
Net cash inflow from operating activities		**112,256**	263,729
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**80,648**	21,358
Dividend received from an unlisted investment	5	**5,712**	7,520
Purchases of items of property, plant and equipment	15	**(53,855)**	(70,497)
Increase in prepaid land lease payments	16	**(9,143)**	(233)

	Notes	2006 HK$'000	2005 HK$'000
Proceeds from disposal of items of property, plant and equipment		**951**	3,389
Additions to other intangible assets	18	**(16,125)**	(6,576)
Proceeds from disposal of a discontinued operation	12	**–**	1,514,910
Expenses in relation to the disposal of a discontinued operation	12	**–**	(20,291)
Net cash inflow from investing activities		**8,188**	1,449,580
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(2,205)**	(3,138)
Dividends paid		**(101,879)**	(271,676)
Dividends paid to minority shareholders		**(45,376)**	(104,667)
Capital injection by minority shareholders in subsidiary		**3,112**	–
Government grant received		**7,475**	–
Proceeds from issue of shares	32	**–**	13,320
Net cash outflow from financing activities		**(138,873)**	(366,161)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(18,429)**	1,347,148
Cash and cash equivalents at beginning of year		**1,696,013**	344,484
Effect of foreign exchange rate changes, net		**6,578**	4,381
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,684,162**	1,696,013
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**122,923**	223,532
Time deposits with original maturity of less than three months when acquired	26	**1,561,239**	1,472,481
		1,684,162	1,696,013

BALANCE SHEET

31 December, 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**6,242**	2,405
Investments in subsidiaries	19	**101,519**	101,513
Total non-current assets		**107,761**	103,918
CURRENT ASSETS			
Due from subsidiaries	19	**165,154**	84,406
Prepayments, deposits and other receivables	25	**9,850**	2,483
Cash and cash equivalents	26	**1,501,072**	1,502,262
Total current assets		**1,676,076**	1,589,151
CURRENT LIABILITIES			
Due to subsidiaries	19	**56,621**	8,337
Other payables and accruals	28	**7,967**	4,384
Total current liabilities		**64,588**	12,721
NET CURRENT ASSETS		**1,611,488**	1,576,430
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,719,249**	1,680,348
Net assets		**1,719,249**	1,680,348
EQUITY			
Issued capital	32	**56,599**	56,599
Reserves	34(b)	**1,617,371**	1,589,790
Proposed final dividend	13	**45,279**	33,959
Total equity		**1,719,249**	1,680,348

Ms. Zhao Yanping
Director

Mr. Tse Hsin
Director

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the main board on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines; and the investment in sino-foreign equity joint ventures, whose principal activities are the manufacture, distribution and sale of pharmaceutical products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for periodic remeasurement of buildings as further explained in note 15. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December, 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. The method involves the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as Consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKAS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK (IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new and revised HKFRSs has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the company's financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January, 2009. The standard requires disclosures about the information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HK(IFRIC) – Int 8, HK(IFRIC) – Int 9, HK(IFRIC) – Int 10, HK(IFRIC) – Int 11 and HK(IFRIC) – Int 12 shall be applied for annual periods beginning on or after 1 March, 2006, 1 June, 2006, 1 November, 2006, 1 March, 2007 and 1 January, 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The Company's interests in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (continued)

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in the prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4% – 5%
Leasehold improvements	5% – 20%
Plant and machinery	5% – 9%
Motor vehicles	9% – 18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (continued)

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, whether allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment; or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible bonds

Convertible bonds are bifurcated into a debt component and an embedded derivative component.

The debt component is initially recognised at fair value, determined by discounting the future contractual cash flows at the prevailing market interest rate for a similar non-convertible borrowing. The debt component is subsequently measured at amortised cost using the effective interest rate method until extinguished on conversion or redemption.

The embedded derivative is initially recognised at fair value determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of debt component at initial recognition. The embedded derivative is subsequently measured at fair value with reference to the market value of the share price of the Company, after taking into account the fair value of the debt component. Changes in fair value of the embedded derivative component in the convertible bonds are charged/credited to the income statement, net of income tax effects, for the period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November, 2002 that had not vested on 1 January, 2006 and to those granted on or after 1 January, 2006.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20-23% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries in which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries level. The Group considers that the deferred tax assets are recognised to the extent that it is probable that subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary differences. The carrying amount of deferred tax assets at 31 December, 2006 was HK$4,244,000 (2005: HK$3,647,000). More details are given in note 31.

Estimation uncertainty

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 discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December, 2006 was HK$42,031,000 (2005: HK$41,948,000). More details are given in note 17.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's customers and operations are based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. During the year, the directors reviewed the segment information disclosure, and information on biopharmaceutical, modernised Chinese and chemical medicines were further analysed.

Summary details of the business segments are as follows:

(a) the biopharmaceutical medicines segment comprises the manufacture, sale and distribution of the biopharmaceutical medicine products;

(b) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine products; and chemical medicine products; and

(c) the investment segment is engaged in long term investment.

4. SEGMENT INFORMATION (Continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December, 2006 and 2005.

Year ended 31 December, 2006	Continuing operations: Modernised Chinese medicines HK$'000	Continuing operations: Investment HK$'000	Continuing operations: Others HK$'000	Continuing operations: Eliminations HK$'000	Continuing operations: Total HK$'000	Discontinued operation: Biopharma-ceutical medicines HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	723,606	–	5,334	–	728,940	–	728,940
Dividend income	–	5,712	–	–	5,712	–	5,712
Total	723,606	5,712	5,334	–	734,652	–	734,652
Segment results	197,288	(47,782)	(3,164)	–	146,342	–	146,342
Interest and unallocated gains					91,486	–	91,486
Share of profit of an associate					704	–	704
Unallocated expenses					(31,254)	–	(31,254)
Finance costs					(2,205)	–	(2,205)
Profit before tax					205,073	–	205,073
Tax					(22,106)	–	(22,106)
Profit for the year					182,967	–	182,967
Assets and liabilities							
Segment assets	571,722	1,590,619	43,744	–	2,206,085	–	2,206,085
Interest in an associate	–	4,781	–	–	4,781	–	4,781
Other unallocated assets					4,244	–	4,244
Total assets					2,215,110	–	2,215,110
Segment liabilities	148,790	17,173	2,546	–	168,509	–	168,509
Other unallocated liabilities					15,102	–	15,102
Total liabilities					183,611	–	183,611
Other segment information:							
Depreciation and amortisation	20,057	1,486	795	–	22,338	–	22,338
Capital expenditure	45,551	5,319	28,253	–	79,123	–	79,123
Other non-cash expenses	100	–	–	–	100	–	100

4. SEGMENT INFORMATION (continued)

Business segments (Continued)

Year ended 31 December, 2005	Continuing operations: Modernised Chinese medicines HK$'000	Continuing operations: Investment HK$'000	Continuing operations: Others HK$'000	Continuing operations: Eliminations HK$'000	Continuing operations: Total HK$'000	Discontinued operation: Biopharma-ceutical medicines HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	744,378	–	4,175	–	748,553	479,838	1,228,391
Dividend income	–	7,520	–	–	7,520	–	7,520
Total	744,378	7,520	4,175	–	756,073	479,838	1,235,911
Segment results	190,963	7,686	(896)	–	197,753	173,650	371,403
Interest and unallocated gains					28,599	4,431	33,030
Unallocated expenses					(44,797)	–	(44,797)
Fair value adjustment to embedded derivative of convertible bonds					(66,315)	–	(66,315)
Finance costs					(2,729)	(732)	(3,461)
Profit before tax					112,511	177,349	289,860
Tax					(18,311)	(25,136)	(43,447)
Profit for the year					94,200	152,213	246,413
Assets and liabilities							
Segment assets	551,947	1,579,514	5,114	–	2,136,575	–	2,136,575
Other unallocated assets					3,647	–	3,647
Total assets					2,140,222	–	2,140,222
Segment liabilities	145,981	8,398	1,049	–	155,428	–	155,428
Other unallocated liabilities					9,550	–	9,550
Total liabilities					164,978	–	164,978
Other segment information:							
Depreciation and amortisation	19,011	1,185	672	–	20,868	10,838	31,706
Capital expenditure	34,439	322	1,385	–	36,146	41,160	77,306
Other non-cash expenses	2,166	2	–	–	2,168	145	2,313

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and dividend income from an unlisted investment.

An analysis of revenue, other income and gains is as follows:

	Note	**2006** **HK$'000**	2005 HK$'000
Sale of goods		**728,940**	1,228,391
Dividend income		**5,712**	7,520
		734,652	1,235,911
Attributable to continuing operations reported in the consolidated income statement		**734,652**	756,073
Attributable to a discontinued operation	12	**–**	479,838
		734,652	1,235,911
Other income			
Bank interest income		**80,648**	21,358
Government grants		**3,347**	6,671
Sale of scrap materials		**2,715**	1,930
Others		**4,581**	2,867
		91,291	32,826
Attributable to continuing operations		**91,291**	28,395
Attributable to a discontinued operation		**–**	4,431
		91,291	32,826
Gains			
Gain on disposal of property, plant and equipment		**73**	204
Revaluation surplus of property, plant and equipment		**122**	–
		195	204
Attributable to continuing operations		**195**	204
Attributable to a discontinued operation		**–**	–
		195	204
Total other income and gains			
Attributable to continuing operations reported in the consolidated income statement		**91,486**	28,599
Attributable to a discontinued operation		**–**	4,431
		91,486	33,030

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2006 HK$'000**	2005 HK$'000
Attributable to continuing operations reported in the consolidated income statement:			
Cost of sales		**138,788**	139,418
Depreciation	15/16	**21,567**	20,153
Amortisation of intangible assets*	18	**771**	715
Research and development costs		**27,183**	46,661
		188,309	206,947
Minimum lease payments under operating leases:			
Land and buildings		**3,752**	2,931
		3,752	2,931
Auditors' remuneration		**1,031**	937
Employee benefits expense (including directors' remuneration (note 8)):			
Wages and salaries		**123,120**	136,942
Pension scheme contributions **		**5,719**	17,370
		128,839	154,312
Provision for bad and doubtful debts		**415**	1,134
Foreign exchange differences, net		**(1,308)**	(1,164)

6. PROFIT BEFORE TAX (Continued)

	Notes	**2006 HK$'000**	2005 HK$'000
Attributable to a discontinued operation:			
Cost of sales		–	80,126
Depreciation	15/16	–	9,958
Amortisation of intangible assets*	18	–	880
Research and development costs		–	5,668
		–	96,632
Minimum lease payments under operating leases:			
Land and buildings		–	4,583
Employee benefits expense (including directors' remuneration (note 8)):			
Wages and salaries		–	41,396
Pension scheme contributions **		–	11,447
		–	52,843
Provision for bad and doubtful debts		–	–
Foreign exchange differences, net		–	(119)

Notes:

* The amortisation of patents and licences and deferred development costs for the year are included in "Cost of sales" and "Other operating expenses" on the face of the consolidated income statement.

** During the year, certain of the subsidiaries in Mainland China were members of a pension contribution scheme managed by the respective local governments. Contributions made during the year were based on 20%-23% (2005: 20%-23%) of the employees' salaries and were charged to the consolidated income statement as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December, 2006 (2005: 5%).

7. (a) FINANCE COSTS

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Interest on bank loans wholly repaid during the year		**2,205**	2,996
Interest on the debt component of convertible bonds	30	**–**	465
Total interest		**2,205**	3,461
Attributable to continuing operations reported in the consolidated income statement		**2,205**	2,729
Attributable to a discontinued operation (note 12)		**–**	732
		2,205	3,461

(b) FAIR VALUE ADJUSTMENT TO EMBEDDED DERIVATIVE OF CONVERTIBLE BONDS

This solely represents the changes in the fair value to the embedded derivative component of the convertible bonds, which is charged to the consolidated income statement as a result of the first year adoption of HKAS 39 in 2005. As the adoption of HKAS 39 is applied prospectively from 1 January, 2005, the fair value of the embedded derivative component was determined by reference to the respective market value of the Company's share price as at 1 January, 2005 and the date of conversion of the convertible bonds on 13 April, 2005. The fair value adjustment to the embedded derivative of convertible bonds was one-off and non-cash in nature and the Company's convertible bonds were fully converted into the Company's shares by April 2005.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Fees	**350**	288
Other emoluments:		
Salaries, allowances and benefits in kind	**8,287**	7,013
Pension scheme contributions	**96**	74
Discretionary bonuses	**1,330**	10,897
	9,713	17,984
	10,063	18,272

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Ms. Zheng Qun, Grace	–	110
Mr. Lu Zhengfei	150	16
Mr. Li Dakui	100	65
Ms. Li Jun	100	97
	350	288

Ms. Zheng Qun, Grace resigned as an independent non-executive director on 22 November, 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006						
Executive directors:						
Mr. Tse Ping	–	3,600	–	–	12	3,612
Mr. Tao Huiqi	–	569	450	–	10	1,029
Mr. Wang Jinyu	–	300	–	–	12	312
Mr. He Huiyu	–	1,008	–	–	–	1,008
Ms. Cheng Cheung Ling	–	1,040	–	–	12	1,052
Ms. Zhao Yanping	–	600	300	–	19	919
Mr. Tse Hsin	–	910	–	–	12	922
Mr. Zhang Baowen	–	260	580	–	19	859
	–	8,287	1,330	–	96	9,713
Non-executive director:						
Ms. Josephine Price	–	–	–	–	–	–
	–	8,287	1,330	–	96	9,713

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005						
Executive directors:						
Mr. Tse Ping	–	3,000	5,000	–	12	8,012
Mr. Tao Huiqi	–	384	534	–	10	928
Mr. Wang Jinyu	–	276	–	–	12	288
Mr. He Huiyu	–	1,008	–	–	–	1,008
Ms. Cheng Cheung Ling	–	900	425	–	12	1,337
Ms. Zhao Yanping	–	600	4,300	–	16	4,916
Mr. Tse Hsin	–	845	638	–	12	1,495
	–	7,013	10,897	–	74	17,984
Non-executive director:						
Ms. Josephine Price	–	–	–	–	–	–
	–	7,013	10,897	–	74	17,984

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2005: five) directors, details of whose remuneration are set out in note 8 above.

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	2006 HK$'000	2005 HK$'000
Group:		
Current – Mainland China income tax	**12,258**	11,708
Deferred tax (note 31)	**1,459**	(1,152)
	13,717	10,556
Tax attributable to a jointly-controlled entity	**8,389**	7,755
Total tax charge for the year	**22,106**	18,311

Pursuant to the Income Tax Law of Mainland China Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries qualify as "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% to 24% applies.

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), one of the Group's principal operating subsidiaries, is exempt from corporate income tax for the two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% exemption from the full corporate income tax rate for the succeeding three years (the "Tax Exemption"). The Tax Exemption expired on 31 December, 2002. As JCTT qualifies as an "Foreign Invested Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. This extended tax exemption period expired on 31 December, 2005. Consequently, JCTT is subject to a corporate income tax rate of 15% in 2006.

10. TAX (Continued)

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. NJCTT is entitled to the preferential corporate income tax rate of 15% as it is located in the Nanjing technology development area. NJCTT is entitled to full exemption from corporate income tax for the year ended 31 December, 2006.

Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide"), a jointly-controlled entity of the Group, is also entitled to the Tax Exemption. Beijing Tide's statutory corporate income tax rate is 24%. As Beijing Tide is also entitled to 50% exemption for its corporate income tax, its corporate income tax rate was 12% for the year ended 31 December, 2004. The Tax Exemption expired on 31 December, 2004. As Beijing Tide qualifies as an "Foreign Invested Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, Beijing Tide is subject to a corporate income tax rate of 12% from 2005 to 2007.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax (including profit from a discontinued operation)	**205,073**	1,696,051
Tax at the statutory tax rate of 33%	**67,674**	559,697
Less: preferential tax rate reduction	**(36,913)**	(305,289)
Income not subject to tax	**(15,981)**	(212,057)
Expenses not deductible for tax	**4,284**	32,481
Tax losses of subsidiaries	**7,950**	786
Tax exemptions/deductions	**(4,908)**	(32,171)
Tax charge at the Group's effective rate	**22,106**	43,447
Tax charge attributable to a discontinued operation (note 12)	**–**	(25,136)
Tax charge attributable to continuing operations reported in the consolidated income statement	**22,106**	18,311

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December, 2006 dealt with in the financial statements of the Company, was HK$140,780,000 (2005: HK$1,614,149,000 after the fair value adjustment to embedded derivative of convertible bonds of HK$66,315,000 (note 7(b))) (note 34(b)).

12. DISCONTINUED OPERATION

	2006 **HK$'000**	2005 HK$'000
Profit of the year from a discontinued operation	**–**	152,213
Gain on disposal of subsidiaries	**–**	1,406,191
	–	1,558,404

On 2 July, 2005, the Company entered into a sale and purchase agreement ("Sale and Purchase Agreement") with Bausch & Lomb Incorporated ("Bausch & Lomb") in relation to the disposal of the Company's entire equity interests in Sino Concept Technology Limited ("Sino Concept"), the sole assets of which are the 55% equity interests in the registered capital of each of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP") (hereinafter referred to as the "Sino Concept group" or the "disposed subsidiaries") at a consideration of US$200,000,000 (approximately HK$1,560 million). The Sino Concept group was principally engaged in the research, development, production and sale in Mainland China of a series of biopharmaceutical products for the medical treatment of ophthalmic conditions and osteoarthritis and for external use to treat skin disease and is a separate business segment that is part of the Mainland China operation of the Group.

The directors consider that the disposal represents a good opportunity for the Company to realise its investment in Sino Concept group at a satisfactory price and are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the shareholders as a whole. The Group has decided to cease its manufacture, distribution and sales business although it is profit making because the Group expects to explore appropriate investment opportunities in the future and additional general working capital for the Group and, if the directors so determine, finance the payment of any special dividend which may be declared. The disposal of the Sino Concept group was completed on 26 September, 2005. Details of the disposed subsidiaries were set out in the Company's announcements dated on 6 July, 2005 and 26 July, 2005.

The results of the Sino Concept group is presented below:

	2005 HK$'000
Revenue	479,838
Expenses	(301,757)
Finance costs	(732)
Profit of the discontinued operation	177,349
Profit before tax from a discontinued operation	177,349
Tax related to pre-tax profit	(25,136)
Profit for the year from a discontinued operation	152,213

12. DISCONTINUED OPERATION (Continued)

Net assets of the disposed subsidiaries on the completion date were as follows:

	Notes	2005 HK$'000
Net assets disposed of:		
Property, plant and equipment	15	136,161
Prepaid land lease payments	16	18,124
Other intangible assets	18	17,329
Deferred tax assets	31	5,469
Cash and cash equivalents		45,090
Inventories		30,925
Trade receivables		94,528
Due from a related party		134
Prepayments, deposits and other receivables		38,175
Trade payables		(8,563)
Other payables and accruals		(129,763)
Tax payable		(5,948)
Due to a related party		(1,662)
Deferred tax liabilities	31	(255)
Minority interests		(106,226)
		133,518
Expenses in relation to the disposal		20,291
Gain on disposal of subsidiaries		1,406,191
		1,560,000
Satisfied by:		
Cash consideration		1,560,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposed subsidiaries is as follows:

	2005 HK$'000
Cash consideration	1,560,000
Cash and bank balances disposed of	(45,090)
Net inflow of cash and cash equivalents in respect of the disposed subsidiaries	1,514,910

12. DISCONTINUED OPERATION (Continued)

The net cash flows incurred by the disposed subsidiaries are as follows:

	2005 HK$'000
Operating activities	119,933
Investing activities	(40,269)
Financing activities	(145,519)
Net cash inflow	(65,855)
Earnings per share:	
Basic, from the discontinued operation	HK67.46 cents
Diluted, from the discontinued operation	HK67.46 cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2005
Net profit attributable to ordinary equity holders of the parent from the discontinued operation	HK$1,490,285,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,209,126,245
Weighted average number of ordinary shares used in the diluted earnings per share calculation	2,209,126,245

13. DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
Interim – HK$0.03 (2005: HK$0.05) per ordinary share		
– paid out from profit after tax	**67,920**	73,207
– paid out from contributed surplus	**–**	30,186
Special dividend – nil (2005: HK$0.05) per ordinary share	**–**	113,199
Proposed final – HK$0.02 (2005: HK$0.015) per ordinary share	**45,279**	33,959
	113,199	250,551

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent for the year of HK$141,172,000 (2005: HK$1,532,929,000), and the weighted average number of 2,263,968,736 ordinary shares in issue during the year (2005: 2,209,126,245, as adjusted to reflect the exercises of share options, bonus issues and conversion of convertible bonds).

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share (after the fair value adjustment to embedded derivative of convertible bonds in 2005) are based on:

	2006 **HK$'000**	2005 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent,		
used in the basic earnings per share calculation:		
(after the fair value adjustment to embedded derivative of		
convertible bonds as set out in note 7(b))		
From continuing operations (after fair value adjustment to		
embedded derivative of convertible bonds)	**141,172**	42,644
From a discontinued operation	**–**	1,490,285
Profit attributable to ordinary equity holders of the parent	**141,172**	1,532,929
Attributable to:		
Continuing operations	**141,172**	42,644
Discontinued operation	**–**	1,490,285
	141,172	1,532,929

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during		
the year used in the basic and diluted earnings per share calculation	**2,263,968,736**	2,209,126,245

There were no diluting events during the years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2006							
Cost or valuation:							
At 31 December, 2005 and at 1 January, 2006	84,502	11,005	108,459	17,372	31,760	14,738	267,836
Additions	1,603	–	456	5,043	5,626	41,127	53,855
Surplus on revaluation	189	–	–	–	–	–	189
Disposals	–	(3,833)	(575)	(1,086)	(721)	–	(6,215)
Transfers	8,708	–	9,491	531	764	(19,494)	–
Exchange realignment	2,668	141	4,116	547	1,103	550	9,125
At 31 December, 2006	97,670	7,313	121,947	22,407	38,532	36,921	324,790
Analysis of cost or valuation:							
At cost	–	7,313	121,947	22,407	38,532	36,921	227,120
At valuation	97,670	–	–	–	–	–	97,670
	97,670	7,313	121,947	22,407	38,532	36,921	324,790
Accumulated depreciation:							
At 31 December, 2005 and at 1 January, 2006	–	7,298	36,931	8,778	16,167	–	69,174
Additions	4,523	60	8,589	3,478	4,617	–	21,267
Disposal	–	(180)	(394)	(748)	(461)	–	(1,783)
Write back on revaluation	(4,627)	–	–	–	–	–	(4,627)
Exchange realignment	104	135	1,577	322	666	–	2,804
At 31 December, 2006	–	7,313	46,703	11,830	20,989	–	86,835
Net book value:							
At 31 December, 2006	97,670	–	75,244	10,577	17,543	36,921	237,955
At 31 December, 2005	84,502	3,707	71,528	8,594	15,593	14,738	198,662

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2005							
Cost or valuation:							
At 31 December, 2004 and at 1 January, 2005	74,658	23,574	114,930	21,210	34,303	109,089	377,764
Additions	3,063	47	11,149	2,504	6,272	47,462	70,497
Surplus on revaluation	2,532	–	–	–	–	–	2,532
Disposal of a discontinued operation (note 12)	(45,466)	(12,950)	(92,236)	(6,351)	(11,801)	(14,530)	(183,334)
Disposals	(2,598)	–	(3,959)	(513)	(583)	–	(7,653)
Transfers	50,451	–	76,126	135	2,867	(129,579)	–
Exchange realignment	1,862	334	2,449	387	702	2,296	8,030
At 31 December, 2005	84,502	11,005	108,459	17,372	31,760	14,738	267,836
Analysis of cost or valuation:							
At cost	–	11,005	108,459	17,372	31,760	14,738	183,334
At valuation	84,502	–	–	–	–	–	84,502
	84,502	11,005	108,459	17,372	31,760	14,738	267,836
Accumulated depreciation:							
At 31 December, 2004 and at 1 January, 2005	202	12,971	50,305	9,759	17,277	–	90,514
Provided during the year							
– Attributable to continuing operations	3,825	62	9,218	2,831	3,947	–	19,883
– Attributable to a discontinued operation	1,135	2,641	5,021	551	153	–	9,501
Written back on revaluation	(1,685)	–	–	–	–	–	(1,685)
Disposal of a discontinued operation (note 12)	(2,894)	(8,567)	(26,223)	(4,319)	(5,170)	–	(47,173)
Disposals	(1,092)	–	(2,563)	(252)	(445)	–	(4,352)
Exchange realignment	509	191	1,173	208	405	–	2,486
At 31 December, 2005	–	7,298	36,931	8,778	16,167	–	69,174
Net book value:							
At 31 December, 2005	84,502	3,707	71,528	8,594	15,593	14,738	198,662
At 31 December, 2004	74,456	10,603	64,625	11,451	17,026	109,089	287,250

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2006				
Cost:				
At beginning of year	3,414	1,929	–	5,343
Additions	3,541	366	1,395	5,302
Exchange realignment	26	15	–	41
At 31 December, 2006	6,981	2,310	1,395	10,686
Accumulated depreciation:				
At beginning of year	2,055	883	–	2,938
Provided during the year	1,106	380	–	1,486
Exchange realignment	17	3	–	20
At 31 December, 2006	3,178	1,266	–	4,444
Net book value:				
At 31 December, 2006	3,803	1,044	1,395	6,242
At 31 December, 2005	1,359	1,046	–	2,405

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Total HK$'000
31 December, 2005			
Cost:			
At beginning of year	3,408	1,609	5,017
Additions	–	321	321
Disposal	–	(4)	(4)
Exchange realignment	6	3	9
At 31 December, 2005	3,414	1,929	5,343
Accumulated depreciation:			
At beginning of year	1,250	501	1,751
Provided during the year	802	383	1,185
Disposal	–	(2)	(2)
Exchange realignment	3	1	4
At 31 December, 2005	2,055	883	2,938
Net book value:			
At 31 December, 2005	1,359	1,046	2,405
At 31 December, 2004	2,158	1,108	3,266

The Group's buildings are all situated in the PRC and are held under long term leases.

The Group's buildings of all subsidiaries as at 31 December, 2006 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK$97,670,000 (2005: HK$84,502,000) based on their existing use. The Group's share in the jointly-controlled entity's leasehold buildings amounted to HK$11,294,000 (2005: HK$11,414,000) were revalued as at the balance sheet date. The revaluation resulted in a surplus of HK$5,504,000 (2005: HK$7,281,000) and a deficit of HK$688,000 (2005: HK$3,064,000). The Group has credited HK$3,036,000 (2005: a credit of HK$2,576,000) to the revaluation reserve and credited HK$122,000 (2005: a charge of HK$122,000) to the income statement, respectively, in the current year.

Had the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$76,774,000 (2005: HK$68,422,000).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**7,692**	25,776
Additions during the year	**9,143**	233
Recognised during the year		
– Attributable to continuing operations	**(300)**	(270)
– Attributable to a discontinued operation	**–**	(457)
Disposal of subsidiaries (note 12)	**–**	(18,124)
Exchange realignment	**337**	534
Carrying amount at 31 December	**16,872**	7,692
Current portion included in prepayments, deposits and other receivables	**(331)**	(254)
Non-current portion	**16,541**	7,438

The prepaid land lease payments for land use rights is held under long term leases and is situated in Mainland China.

As at 31 December, 2006, the Group had not obtained land use rights certificate for certain land use rights with aggregate net book value of approximately HK$9,112,000 (2005: nil).

17. GOODWILL

Group

	HK$'000
31 December, 2006	
Cost and carrying amount at 1 January, 2006	**41,948**
Exchange realignment	**83**
Cost and carrying amount at 31 December, 2006	**42,031**

	HK$'000
31 December, 2005	
Cost at 1 January, 2005	41,900
Exchange realignment	48
Cost and carrying amount at 31 December, 2005	41,948

17. GOODWILL (Continued)

Impairment testing of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill of the Group is related to two different cash generating units, namely Beijing Tide, a jointly-controlled entity and JCTT, a subsidiary of the Group. Over 90% of the carrying amount of goodwill arose from the acquisition of equity interests in Beijing Tide in the previous years.

The recoverable amount of the goodwill attributable to the acquisition of equity interests in Beijing Tide, which belongs to the cash generating units of Chinese modernised medicine and chemical medicines and is a reportable segment, is determined from a value in use calculation using cash flow forecasts based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to Beijing Tide. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2007 and extrapolates cash flows for the following five years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows from Beijing Tide is based on the prevailing bank's borrowing rate offered by major financial institutions in Mainland China.

Based on the above, the directors consider that there is no impairment in goodwill.

18. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December, 2006:			
Cost			
At beginning of the year	**4,854**	**–**	**4,854**
Additions	**–**	**16,125**	**16,125**
Exchange realignment	**260**	**–**	**260**
At 31 December, 2006	**5,114**	**16,125**	**21,239**
Accumulated amortisation			
At beginning of the year	**1,052**	**–**	**1,052**
Provided during the year	**771**	**–**	**771**
Exchange realignment	**73**	**–**	**73**
At 31 December, 2006	**1,896**	**–**	**1,896**
Net carrying amount	**3,218**	**16,125**	**19,343**
31 December, 2005:			
Cost			
At beginning of the year	10,503	7,281	17,784
Additions	3,843	2,733	6,576
Exchange realignment	258	145	403
Disposal of subsidiaries (note 12)	(9,750)	(10,159)	(19,909)
At 31 December, 2005	4,854	–	4,854
Accumulated amortisation			
At beginning of the year	1,971	–	1,971
Provided during the year			
– Attributable to continuing operations	715	–	715
– Attributable to a discontinued operation	880	–	880
Exchange realignment	66	–	66
Disposal of subsidiaries (note 12)	(2,580)	–	(2,580)
At 31 December, 2005	1,052	–	1,052
Net carrying amount	3,802	–	3,802

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**101,519**	101,513
Due from subsidiaries	**165,154**	84,406
Due to subsidiaries	**(56,621)**	(8,337)
	210,052	177,582
Impairment during the year	**–**	–
	210,052	177,582

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amount of these amount due from/(to) approximates to the fair values.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGC")	Mainland China	US$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US$2 Ordinary	100	–	Investment holding
Chia Tai Healthcare (Holdings) Limited	British Virgin Islands/ Mainland China	US$10 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited ("CTL")	British Virgin Islands/ Mainland China	US$3 Ordinary	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK$100 Ordinary	–	51	Research and development of pharmaceutical products

19. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (continued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT")	Mainland China	RMB99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited ("Magnificent")	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	60	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	Mainland China	US$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US$1 Ordinary	100	–	Investment holding
Talent Forward Limited	British Virgin Islands/ Mainland China	US$1 Ordinary	100	–	Investment holding
Lianyungang Chia Tai Tianyi Medicine Co., Ltd. ("CT Tianyi")	Mainland China	US$970,000 Ordinary	–	60	Distribution of pharmaceutical products
Chia Tai Hualing Technology Limited ("Chia Tai Hualing")	Hong Kong	HK$1 Ordinary	–	60	Investment holding
Chia Tai Refined Chemical Industry Limited ("CTRC")	Hong Kong	HK$2 Ordinary	100	–	Investment holding
Evon Industries Ltd.	Hong Kong	HK$2 Ordinary	100	–	Property holding
Sino Biopharmaceutical (Tianjin) Co., Ltd.	Hong Kong	HK$1 Ordinary	–	100	Investment holding

19. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (continued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd.	Mainland China	US$5,000,000 Ordinary	–	60	Manufacture and sale of raw drug

On 4 February, 2006, Magnificent established a wholly-owned subsidiary, Chia Tai Hualing.

On 31 March, 2006, Sino Biopharmaceutical Limited acquired 100% equity interests in Evon Industries Ltd.

On 25 July, 2006, Chia Tai Hualing established a joint venture company, Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd., with JCTT.

On 1 August, 2006, Sino Biopharmaceutical Limited acquired 100% equity interests in CTRC.

On 26 August, 2006, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Sino Biopharmaceutical (Tianjin) Co., Ltd.

On 30 August, 2006, the Company, through its wholly-owned subsidiary, CTRC, entered into the joint venture agreement with Shaanxi Coal Chemical Industry Limited, Shaanxi Province Investment Group Limited and Shaanxi New Coal Chemical Science and Technology Development Co., Ltd. for the establishment of the joint venture company, namely, Shaanxi Xinxing Energy Chemical Industry Limited. Details of the formation of the joint venture company are set out in the Company's press announcement dated 1 September, 2006. As at the balance sheet date, the formation of the joint venture company is still pending the formal approval of the relevant government authorities. The Group's share of the capital contribution in the joint venture company amounted to RMB752,500,000 (approximately HK$722,400,000) (note 37).

On 27 May, 2005, CTL, a wholly-owned subsidiary of the Group, Lianyungang Runzi Consultation Centre ("Lianyungang Runzi") and Jiangsu Juxin Investment Management Corporation Limited ("Jiangsu Juxin") entered into an agreement for the formation of a joint venture, CT Tianyi, which are to be owned by CTL, Lianyuangang Runzi and Jiangsu Juxin at 60%, 24% and 16%, respectively. On 21 November, 2006, JCTT entered into an agreement to acquire the equity interests from the investors with the effect of obtaining the entire equity interests in CT Tianyi via JCTT. Details are set out in the Company's press announcement dated 22 November, 2006.

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

The interest in a jointly-controlled entity, Beijing Tide is indirectly held by the Company, in which the Group holds 35% equity interests therein.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2006 **HK$'000**	2005 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**87,890**	89,798
Non-current assets	**49,439**	46,852
Current liabilities	**(19,818)**	(29,443)
Net assets	**117,511**	107,207
Share of the jointly-controlled entity's results:		
Turnover	**113,919**	112,742
Other revenue	**1,733**	–
Total revenue	**115,652**	112,742
Total expenses	**(54,788)**	(54,330)
Tax	**(8,389)**	(7,755)
Profit after tax	**52,475**	50,657

21. INTERESTS IN AN ASSOCIATE

	Group 2006 HK$'000	Group 2005 HK$'000
Share of net assets	**4,781**	–
Goodwill on acquisition	**408**	–
	5,189	–

Particulars of the associate are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Jiangsu Qingjing Pharmaceutical Co. Ltd. *	Mainland China	RMB18,750,000	–	20	Manufacturing and sale of pharmaceutical products

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The financial statements of the above associate is coterminous with those of the Group.

On 23 December, 2005, CTGC, a subsidiary of the Group, has acquired 20% equity interests in Jiangsu Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") from Jiangsu State Agribusiness Group Corporation Limited, which has 33.5% equity interests in JCTT. Details are set out in the Company's press announcement dated 4 January, 2006.

21. INTERESTS IN AN ASSOCIATE (Continued)

The shares of net assets acquired of the associate as at the date of acquisition were as follows:

	HK$'000
Share of net assets	4,077
Goodwill on acquisition	408
Satisfied by injection of pharmaceutical technologies	4,485

The associate has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associate as extracted from its management accounts:

	2006	2005
	HK$'000	HK$'000
Assets	**71,224**	–
Liabilities	**47,319**	–
Revenues	**51,093**	–
Profit	**3,520**	–

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investments, at cost	**29,820**	29,820
Provision for impairment	**–**	–
	29,820	29,820

The amount comprised the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily from natural herbal ingredients in Mainland China.

The Group's 15% equity investments in Jiangsu Qingjiang which was newly acquired in December 2005 was reclassified to interests in an associate (note 21) in 2006 upon the Group's representation in the board of directors in Jiangsu Qingjiang.

The unlisted equity investments are stated at cost less any impairment losses, rather than at fair value. The directors considered that the fair value of unlisted equity investments cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment; or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such equity investments are stated at cost less any impairment losses.

23. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**13,482**	13,043
Work in progress	**13,259**	10,056
Finished goods	**14,005**	20,993
Spare parts and consumables	**131**	247
	40,877	44,339

24. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**105,900**	94,947
91 days to 180 days	**4,367**	5,266
Over 180 days	**2,001**	1,800
	112,268	102,013

Trade receivables approximate to their fair values due to their relatively short maturity term.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**3,234**	1,565	**–**	175
Other receivables	**15,620**	8,646	**9,288**	1,683
Prepaid expenses	**1,303**	981	**562**	625
Current portion of prepaid land lease payments	**331**	254	**–**	–
	20,488	11,446	**9,850**	2,483

Prepayments, other receivables and prepaid expenses approximate to their fair values due to their relatively short maturity term.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**122,923**	223,532	**10,997**	131,816
Time deposits	**1,561,239**	1,472,481	**1,490,075**	1,370,446
Cash and cash equivalents	**1,684,162**	1,696,013	**1,501,072**	1,502,262

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$159,223,000 (2005: HK$299,005,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

27. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**22,015**	18,944
91 days to 180 days	**1,033**	790
Over 180 days	**820**	825
	23,868	20,559

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The trade payables approximate to their fair values due to their relatively short maturity term.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances from customers	**1,594**	1,285	**–**	–
Accrued payroll and bonus	**31,509**	28,821	**5,644**	2,959
Other payables	**51,154**	60,005	**100**	196
Accrued expenses	**28,665**	21,696	**2,111**	1,167
Housing fund	**450**	372	**–**	–
Staff welfare and bonus fund	**12,961**	10,088	**7**	11
Tax payable other than profit tax	**9,916**	11,421	**105**	51
	136,249	133,688	**7,967**	4,384

Other payables are non-interest-bearing and have an average term of three months. Other payables and accruals approximate to their fair values due to their relatively short maturity term.

29. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented grants received during the year for projects which are expected to take place beyond 2007.

30. CONVERTIBLE BONDS

On 14 August, 2002, the Company entered into subscription agreements (the "Subscription Agreements") with Jian Kang Ltd. ("Jian Kang") and Super Demand Investments Limited ("Super Demand"), respectively. Pursuant to the Subscription Agreements, the Company agreed to issue to Jian Kang (the "2002 Convertible Bond") and Super Demand (the "2003 Convertible Bond") convertible bonds for principal amount of US$6,000,000 (equivalent to approximately HK$46,800,000) and US$4,000,000 (equivalent to approximately HK$31,200,000), respectively.

The 2002 Convertible Bond was issued for gross cash proceeds of approximately HK$46,800,000 on 22 October, 2002 and bears interest at 1% per annum which is payable every three months in arrears. The 2002 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2002 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2002 Convertible Bond (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 16,421,053 new shares would be issued upon the full conversion of the 2002 Convertible Bond.

30. CONVERTIBLE BONDS (Continued)

On 30 December, 2002, the Company and Super Demand agreed to defer the issuance of the 2003 Convertible Bond to 31 March, 2003 or such other date as both parties agree in writing. The 2003 Convertible Bond was issued for gross cash proceeds of approximately HK$31,200,000 on 31 March, 2003, and bears interest at 1% per annum which is payable every three months in arrears. The 2003 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2003 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2003 Convertible Bond (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 10,947,368 new shares would be issued upon the full conversion of the 2003 Convertible Bond.

Pursuant to the shareholders' approval on 27 April, 2004 for the subdivision of each issued and un-issued shares of HK$0.10 each of the Company into four subdivided shares of HK$0.025 each, the conversion price of the 2002 Convertible Bond and the 2003 Convertible Bond issued by the Company has been adjusted from HK$2.85 per share to HK$0.7125 per subdivided share accordingly.

On 24 November, 2004, Jian Kang exercised the conversion rights attached to the 2002 Convertible Bond in accordance with the terms and conditions contained in the instrument in the amount of US$4,500,000 (equivalent to approximately HK$35,100,000) of the principal amount outstanding, and were converted into 49,109,684 shares of the Company at a conversion price of HK$0.7125 per share, representing an increase in share capital of HK$1,228,000 and share premium of HK$33,763,000.

On 28 December, 2004, Super Demand had transferred its entire bonds of US$4,000,000 (equivalent to approximately HK$31,200,000) to Jian Kang and on 13 April, 2005, Jian Kang had exercised all its convertible bonds (2002 Convertible Bond and 2003 Convertible Bond) of US$5,000,000 (equivalent to approximately HK$42,900,000) at a conversion price of HK$0.7125 per share, representing an increase in share capital of HK$1,505,700 and share premium of HK$43,998,000.

Upon adoption of HKAS 39, the convertible bonds shall be classified as a debt component and the conversion option as an embedded derivative component, both as liabilities at the balance sheet dates. The effective annual interest rates of the debt component of 2002 Convertible Bond and 2003 Convertible Bond are 2.95% and 3.61%, respectively. Interest expenses on the bonds are calculated using the effective interest method by applying the effective annual interest rate of 2.95% and 3.61% to the debt component, which is the market fair value interest rate.

30. CONVERTIBLE BONDS (Continued)

The movements of the debt component and the embedded derivative component of the convertible bonds upon the adoption of HKAS 39 are as follows:

	Company			
	2006		2005	
	Debt component HK$'000	**Embedded derivative component HK$'000**	Debt component HK$'000	Embedded derivative component HK$'000
At 1 January	–	–	39,520	53,065
Conversion into ordinary shares	–	–	(39,843)	(119,380)
Interest accrued	–	–	465	–
Payment of interest	–	–	(142)	–
Fair value adjustment on embedded derivative component	–	–	–	66,315
At 31 December	–	–	–	–

31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group **2006**

	Development costs HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January, 2006:	–	2,404	2,404
Charged to the income statement (note 10)	2,056	–	2,056
Charged to equity	–	769	769
Gross deferred tax liabilities At 31 December, 2006	2,056	3,173	5,229

Deferred tax assets

Group **2006**

	Provision for other receivables HK$'000	Provision for trade receivables HK$'000	Accruals HK$'000	Total HK$'000
At 1 January, 2006	99	735	2,813	3,647
Credited to the income statement (note 10)	20	48	529	597
Gross deferred tax assets At 31 December, 2006	119	783	3,342	4,244

31. DEFERRED TAX (Continued)

Deferred tax liabilities

Group	2005 Revaluation of properties HK$'000
At 1 January, 2005:	2,038
Reversal upon discontinued operation (note 12)	(255)
Charged to equity	621
Gross deferred tax liabilities At 31 December, 2005	2,404

Deferred tax assets

Group					2005
	Accruals HK$'000	Provision for other receivables HK$'000	Provision for trade receivables HK$'000	Fixed assets depreciation HK$'000	Total HK$'000
At 1 January, 2005	5,971	–	539	1,454	7,964
Credited to the income statement (note 10)	835	99	218	–	1,152
Reversal upon discontinued operation (note 12)	(3,993)	–	(22)	(1,454)	(5,469)
Gross deferred tax assets At 31 December, 2005	2,813	99	735	–	3,647

32. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.025 each (2005: 4,000,000,000 ordinary shares of HK$0.025 each)	**100,000**	100,000
Issued and fully paid:		
2,263,968,736 ordinary shares of HK$0.025 each (2005: 2,263,968,736 ordinary shares of HK$0.025 each)	**56,599**	56,599

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

(a) The Existing Scheme

The Company operates a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September, 2000. On 26 April, 2002, the Existing Scheme was terminated and replaced by a new share option scheme, as detailed below under the heading "The New Scheme". Upon the termination of the Existing Scheme, no further share options will be granted pursuant to the Existing Scheme, however the Existing Scheme will, in all other respects, remain in force to the extent necessary to give effect to the exercise of the outstanding share options previously granted pursuant thereto. The outstanding share options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries. The directors of the Company are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares of the Company (the "Shares"). Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing on 19 September, 2000.

33. SHARE OPTION SCHEME (Continued)

(a) The Existing Scheme (continued)

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the Shares in issue for a period of 10 consecutive years. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 10% of the Shares in issue at any time. No option may be granted to any eligible participants which, if exercised in full, would result in such eligible participants becoming entitled to subscribe for such number of Shares as, and when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, which may commence from the date immediately following the date of grant and ending on such date as the directors of the Company may determine but in any event not exceeding 10 years from the date of grant of such share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options as stated in the daily quotation sheet of the Stock Exchange; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer as stated in the daily quotation sheets of the Stock Exchange.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 9.6 of the Rules of the Existing Scheme, if there is any alteration in the capital structure of the Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issued, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party) or otherwise, such corresponding alterations (if any) shall be made in:

(i) the number of Shares (without fractional entitlements) subject to the Option so far as unexercised; and/or

(ii) the Subscription Price; and/or

(iii) the method of exercise of the Option.

All share options granted by the Company were fully exercised in 2005. There were no further share options granted by the Company in 2006.

33. SHARE OPTION SCHEME (Continued)

(b) The New Scheme

Following the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October, 2001, no share options may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new share option scheme (the "New Scheme") was adopted by the Company on 26 April, 2002 and at the same time the Existing Scheme was terminated. The New Scheme remains in force for ten years commencing from 26 April, 2002. On approval by the Stock Exchange for listing of the Company's shares on the main board, the Company adopted a proposed share option scheme (the "Proposed Scheme") and terminated the New Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 24 November, 2003. No share options were granted under the New Scheme since 26 April, 2002.

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme")

The Proposed Scheme (hereafter to be known as the "2003 Scheme") became effective on 8 December, 2003 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2003 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the 2003 Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the 2003 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding option, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2003 Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

33. SHARE OPTION SCHEME (Continued)

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme") (continued)

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2003 Scheme at any time during a period to be determined on the date of offer of grant of share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the 2003 Scheme for the holding of a share option before it can be exercised.

The exercise price of the Shares under the 2003 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2003 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued shares of HK$0.10 each into four shares of HK$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2003 Scheme accordingly.

No share options were granted under the 2003 Scheme during the year.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 56 to 57 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September, 2000, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in the Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, enterprise expansion fund and staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the Mainland China joint ventures.

34. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Balance at 1 January, 2005		131,481	107,299	(162,953)	75,827
Issue of shares on exercise of share options	33	11,520	–	–	11,520
Issue of shares on exercise of convertible bonds	32	157,711	–	–	157,711
Issue of bonus shares		(18,866)	–	–	(18,866)
Profit for the year	11	–	–	1,614,149	1,614,149
Interim 2005 dividend	13	–	(30,186)	(73,207)	(103,393)
Special dividend	13	–	–	(113,199)	(113,199)
Proposed final 2005 dividend	13	–	–	(33,959)	(33,959)
At 31 December, 2005		281,846	77,113	1,230,831	1,589,790
Balance at 1 January, 2006					
As previously reported		281,846	77,113	1,230,831	1,589,790
Transfer to retained profits arising from disposal of subsidiaries		–	(16,649)	16,649	–
As restated		281,846	60,464	1,247,480	1,589,790
Profit for the year	11	–	–	140,780	140,780
Interim 2006 dividend	13	–	–	(67,920)	(67,920)
Proposed final 2006 dividend	13	–	–	(45,279)	(45,279)
At 31 December, 2006		**281,846**	**60,464**	**1,275,061**	**1,617,371**

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Discounted bank notes	**8,464**	4,970	**–**	–

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use right under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and for land use right are for terms ranging from one to fifty years.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,791**	2,221	**780**	1,172
In the second to fifth years, inclusive	**3,534**	3,367	**325**	806
After five years	**22,057**	23,182	**–**	–
	28,382	28,770	**1,105**	1,978

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	**413**	2,614
– Capital contributions in respect of a joint venture company (note 19)	**722,400**	–
	722,813	2,614
Authorised, but not contracted for:		
– Plant and machinery	**2,945**	20,994

In addition, the Company's share of the jointly-controlled entity's capital commitments, which are not included in the above, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	**1,052**	223

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the years:

	Group	
	2006	2005
	HK$'000	HK$'000
Sales of products to:		
– a Chinese joint venture		
partner of a subsidiary (note a)	**–**	1,341
– a related party with a common shareholder		
of a subsidiary (note a)	**–**	773
Purchases of raw materials from:		
– a related party with a common shareholder		
of a subsidiary (note b)	**–**	17,264
Purchases of raw materials from:		
– a Chinese joint venture partner		
of a subsidiary (note b)	**3,313**	2,178
– a company indirectly owned		
by a director (note b)	**–**	5
Service revenue from		
– a company indirectly owned by a director (note c)	**234**	869
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's		
Chinese joint venture partner (note d)	**–**	3,635
– a Chinese joint venture		
partner of a subsidiary (note d)	**580**	565
– a company beneficially owned by a		
director (note d)	**780**	684
Research and development expenses to		
– a fellow subsidiary of a subsidiary's		
Chinese joint venture partner (note e)	**–**	1,439

38. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) Sales of products to the Chinese joint venture partner of the subsidiary, Chinese joint venture of a jointly-controlled entity and a related party with a common shareholder of a subsidiary were conducted with reference to the market prices.

(b) Purchases of raw materials were conducted with reference to the market prices.

(c) Service revenue were conducted with reference to the market prices.

(d) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.

(e) Research and development expenses were based on the terms of the agreements entered into with the related party.

(b) Other transactions with related parties

(i) As disclosed in note 19, on 21 November, 2006, the Group acquired the entire equity interests from the investors of CT Tianyi via JCTT (the "Acquisition"). The investors included Jiangsu Juxin which is a wholly-owned subsidiary of Jiangsu State Agribusiness Commercial Commodities Limited ("Jiangsu Agribusiness") which holds a 33.5% equity interests in JCTT. JCTT is 60% owned by the Group. The consideration of RMB8,600,000 (approximately HK$8,256,000) for the Acquisition was fulfilled by cash to the investors of CT Tianyi. The Acquisition constituted a connected transaction as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Details of the Acquisition were set out in the Company's press announcement dated 22 November, 2006.

(ii) On 18 September, 2006, JCTT entered into a master supply agreement to supply to CT Tianyi anti-bacterial and anti-inflammatory medicines and hepatitis and oncology medicines from 18 September, 2006 to 31 December, 2007 (the "JCTT Master Supply Agreement"). The terms of the JCTT Master Supply Agreement is to be determined by reference to the prevailing market price and demand of anti-bacterial and anti-inflammatory medicines and hepatitis and oncology medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The JCTT Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the JCTT Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. The sale of goods by JCTT to CT Tianyi for the year amounted to HK$1,862,000, and has been eliminated on consolidation.

(iii) On 18 September, 2006, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") entered into a master supply agreement to supply to CT Tianyi cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines from 18 September, 2006 to 31 December, 2007 (the "NJCTT Master Supply Agreement"). The terms of the NJCTT Master Supply Agreement is to be determined by reference to the prevailing market price and demand of cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The NJCTT Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the NJCTT Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. The sale of goods by NJCTT to CT Tianyi for the year amounted to HK$2,067,000, and has been eliminated on consolidation.

38. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

(iv) On 18 September, 2006, Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai") entered into a master supply agreement to supply to CT Tianyi anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines from 18 September, 2006 to 31 December, 2007 (the "Jiangsu Fenghai Master Supply Agreement"). The terms of the Jiangsu Fenghai Master Supply Agreement is to be determined by reference to the prevailing market price and demand of anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The Jiangsu Fenghai Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. There were no transactions arising from the Jiangsu Fenghai Master Supply Agreement in 2006.

(v) On 18 September, 2006, Jiangsu Qingjiang entered into a master supply agreement to supply to CT Tianyi arthritis medicines and cardio-cerebral medicines from 18 September, 2006 to 31 December, 2007 (the "Qingjiang Master Supply Agreement"). The terms of the Qingjiang Master Supply Agreement is to be determined by reference to the prevailing market price and demand of arthritis medicines and cardio-cerebral medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The Qingjiang Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the Qingjiang Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. There were no transactions arising from the Qingjiang Master Supply Agreement in 2006.

(vi) On 23 December, 2005, CTGC entered into an agreement with Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian") for CT Green Continent to provide technology development services for certain pharmaceutical products for a term of 3 years from 1 January, 2006 to 31 December, 2008 to CT Xian (the "CT Xian Technology Services Agreement"). The terms of the technology development services are to be determined by reference to the prevailing market prices and no more favourable to CT Xian than those offered to independent third parties. CT Xian is a sino-foreign equity joint venture established in the Mainland China which is 60% (indirectly) owned by Mr Tse Ping, chairman of the Company, and is principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine. CT Xian is a connected party as defined in Chapter 14A of the Listing Rules. Details of the CT Xian Technology Services Agreement were set out in the Company's press announcement dated 4 January, 2006. There were no transactions arising from the CT Xian Technology Services Agreement in 2006.

38. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

(vii) On 23 December, 2005, CTGC entered into an agreement with Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai") for CT Green Continent to provide technology development services for certain pharmaceutical products for a term of 3 years from 1 January, 2006 to 31 December, 2008 to Jiangsu Fenghai (the "Jiangsu Fenghai Technology Services Agreement"). The terms of the technology development services are to be determined by reference to the prevailing market prices and no more favourable to Jiangsu Fenghai than those offered to independent third parties. Jiangsu Fenghai is 51% owned by a company wholly-owned by Mr Tse Ping, chairman of the Company, and is principally engaged in the production and sale of pharmaceutical raw materials and products. Jiangsu Fenghai is a connected party as defined in Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai Technology Services Agreement were set out in the Company's press announcement dated 4 January, 2006. The service revenue by CTGC for the year amounted to HK$234,000, and has been disclosed in note 38(a) under "Service revenue from a company indirectly owned by a director".

(viii) On 23 December, 2005, JCTT and Jiangsu Agribusiness entered into a master purchase agreement for JCTT's purchase of coal from Jiangsu Agribusiness for a term of 3 years from 1 January, 2006 to 31 December, 2008 (the "Master purchase agreement"). The terms of the Master purchase agreement are to be determined by reference to the prevailing market price of coal in Mainland China, the prevailing market demand and the quotations obtained from various potential suppliers, and no less favourable to JCTT than those available from independent suppliers. Jiangsu Agribusiness is a connected party and the Master purchase agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the Master purchase agreement were set out in the Company's press announcement dated 4 January, 2006. The purchase of raw materials from Jiangsu Agribusiness for the year amounted to HK$3,313,000, and has been disclosed in note 38(a) under "Purchases of raw materials from a chinese joint venture partner of a subsidiary".

(ix) On 23 December, 2005, CTGC entered into an agreement with investors of Jiangsu Qing Jiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") for acquisition of 20% equity interests in Jiangsu Qingjiang by injection of certain pharmaceutical technologies. As Jiangsu Agribusinesss is an investor of Jiangsu Qingjiang, the agreement with the investors of Jiangsu Qingjiang constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the acquisition of the 20% equity interests of Jiangsu Qingjiang were set out in the Company's press announcement dated 4 January, 2006.

(c) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had trade payables to its Chinese joint venture partners of HK$917,000 (2005: HK$1,181,280) and trade receivables from its Chinese joint venture partners of HK$2,192,000 (2005: HK$1,094,026). Trade payables and receivables are unsecured, interest-free and on normal trade terms for repayment.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's financial instruments are credit risk, significant concentrations of credit risk, interest rate risk, currency risk, liquidity and funding risk, and net fair value risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties and has a stringent procedure in extending credit terms to customers and in monitoring its credit risk.

The credit policy outlines clearly the guidelines on extending credit terms to customers, including monitoring the credit control process and use of related industry's practices as reference. This includes assessing and valuation of customers' credit reliability and periodic review of their financial status to determine credit limits to be granted. Customers may be required to provide security in terms of cash or immovable assets.

The carrying amount of financial assets recorded in the financial statements, net of any provision for doubtful debts, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The directors consider credit risk to be low as the major customers are large and medium corporations with good credit track records.

Interest rate risk

Interest rate risk arises from the potential changes in interest rates that may have adverse effects in the Group's results for the current reporting year and in the future years.

The directors consider that the Group is not significantly exposed to interest rate risk and no hedging or other alternatives have been implemented.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and HK dollars. In the Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner).

The directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Liquidity and funding risk

The Group's liquidity remains strong as at balance sheet date. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group is not exposed to liquidity and funding risk.

Net fair value

The carrying amounts of cash and bank balances, trade and other receivables and payables, provisions and other liabilities approximate their respective fair values due to the relatively short maturity term.

It is not practicable within the constraint of cost to reliably determine the fair value of amounts of receivables and payables to related companies as these balances are on normal trade terms.

40. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the directors of the Company proposed a final dividend of HK$0.02 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 13 and 34).

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March, 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage. As the principal operating subsidiaries of the Group were designated as "High and New Technology Enterprises", it is expected that there is no material impact on the Group.

41. COMPARATIVE AMOUNTS

The contributed surplus and retained profits for both the Company and the Group as at 31 December, 2005 have been restated to reflect the transfer from the attributable amount of contributed surplus of the disposed subsidiaries (note 12) to retained profits as set out in the Company's reserves (note 34(b)), and the consolidated statement of changes in equity.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 3 April, 2007.

NOTICE IS HEREBY GIVEN that an annual general meeting of Sino Biopharmaceutical Limited ("the Company") will be held at 10:00 a.m. on Monday, 18 June, 2007 at 7th Floor, Board Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the following purposes:

1. To receive, consider and adopt the audited financial statements of the Company and the reports of the Directors and the independent auditors thereon for the year ended 31 December, 2006;

2. To approve the payment of a final dividend for the year ended 31 December, 2006;

3. To re-elect Directors and to authorize the Board of Directors to fix the remuneration of the Directors;

4. To re-appoint the auditors and to authorize the Board of Directors to fix the remuneration of the auditors of the Company;

5. As special business, to consider, and, if thought fit, pass with or without amendments the following Resolutions as Ordinary Resolutions:

ORDINARY RESOLUTION

(A) "**THAT**:

(1) subject to paragraph (3) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and other securities, including warrants to subscribe for shares of the Company, which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;

(2) the approval in paragraph (1) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements, options and other securities, including warrants to subscribe for shares of the Company, which would or might require the Company to allot, issue or deal with additional shares in the capital of the Company at any time during or after the end of the Relevant Period;

(3) the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), issued or otherwise dealt with by the Directors pursuant to the approval in paragraph (1) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription or conversion rights attaching to any securities which may be issued by the Company from time to time or the exercise of the options granted under the share option scheme of the Company or any issue of shares in lieu of the whole or part of a dividend on shares, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(4) for the purpose of this Resolution:

"Relevant Period" means the period from the time of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this Resolution.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares whose names on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

(B) "**THAT**:

(1) subject to paragraph (2) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(2) the aggregate nominal amount of the shares of the Company authorized to be purchased by the Company pursuant to the approval in paragraph (1) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(3) for the purpose of this Resolution:

"Relevant Period" means the period from the time of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; and

(iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this Resolution."

(C) "**THAT**, conditional upon the Resolutions set out as Resolutions 5(A) and 5(B) of the notice convening this Meeting being duly passed, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares in the capital of the Company pursuant to the Resolution set out as Resolution 5(A) of the notice convening this Meeting be and is hereby extended by the addition to such mandate of an amount representing the aggregate nominal amount of the shares of the Company purchased by the Company under the authority granted pursuant to the Resolution set out as Resolution 5(B) of the notice convening this Meeting, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of the said Resolution."; and

6. As special business, to consider and, if thought fit, pass with or without amendments the following Resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

"**THAT** pursuant to Clause 5(B) of the share option scheme ("**Share Option Scheme**") adopted by the Company on 24 November, 2003, the directors of the Company be and are hereby authorized to grant further options under the Share Option Scheme upon exercise of which shares in the capital of the Company with an aggregate nominal amount representing up to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution."

By Order of the Board
Leung Sau Fung, Fanny
Company Secretary

Hong Kong, 25 April, 2007

As at the date of this announcement, the Board comprises seven executive Directors, namely Mr. Tse Ping, Mr. Tao Huiqi, Mr. He Huiyu, Ms. Cheng Cheung Ling, Ms. Zhao Yanping, Mr. Tse Hsin and Mr. Zhang Baowen and three independent non-executive Directors, namely Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

3. The register of members of the Company will be closed from Thursday, 14 June, 2007 to Monday, 18 June, 2007 (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 13 June, 2007 for registration.

4. Pursuant to Article 66 of the Articles of Association of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is required under the rules of the Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:-

   (a) by the chairman of such meeting; or

   (b) by at least three shareholders of the Company (the "Shareholders") present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

   (c) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

   (d) by a Shareholder or Shareholders present in person or in case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

   (e) by any of the Directors who individually or collectively (including the chairman of the relevant meeting of the Company) hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting of the Company, and if on a show of hands such meeting votes in the opposite manner to that instructed in those proxies, such Directors shall have the right to demand a poll. If a poll is required under these circumstances, the chairman of the meeting should disclose to the meeting of the Company the total number of votes represented by all proxies held by Directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

5. A circular containing further details regarding the Resolutions set out as Resolutions 5(A), (B) and (C) and Resolution 6 will be sent to the Shareholders together with the annual report of the Company for the year ended 31 December, 2006.