中國製藥集團有限公司

China Pharmaceutical Group Limited

ANNUAL REPORT 2006

Stock Code：1093

CONTENTS

BOARD OF DIRECTORS
Executive Directors:
CAI Dongchen *(Chairman)*
YUE Jin
FENG Zhenying
JI Jianming
CHAK Kin Man
PAN Weidong
LI Zhibiao
ZHANG Zheng

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
HUO Zhenxing
QI Moujia
GUO Shichang
CHAN Siu Keung, Leonard

COMMITTEES
Audit Committee:
CHAN Siu Keung, Leonard (Chairman)
LEE Ka Sze, Carmelo
HUO Zhenxing

Remuneration Committee:
CHAN Siu Keung, Leonard (Chairman)
LEE Ka Sze, Carmelo
HUO Zhenxing

LEGAL ADVISERS
Woo, Kwan, Lee & Lo
25th Floor, Jardine House
1 Connaught Place
Hong Kong

AUDITORS
Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY
LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES
CHAK Kin Man
LI Zhibiao

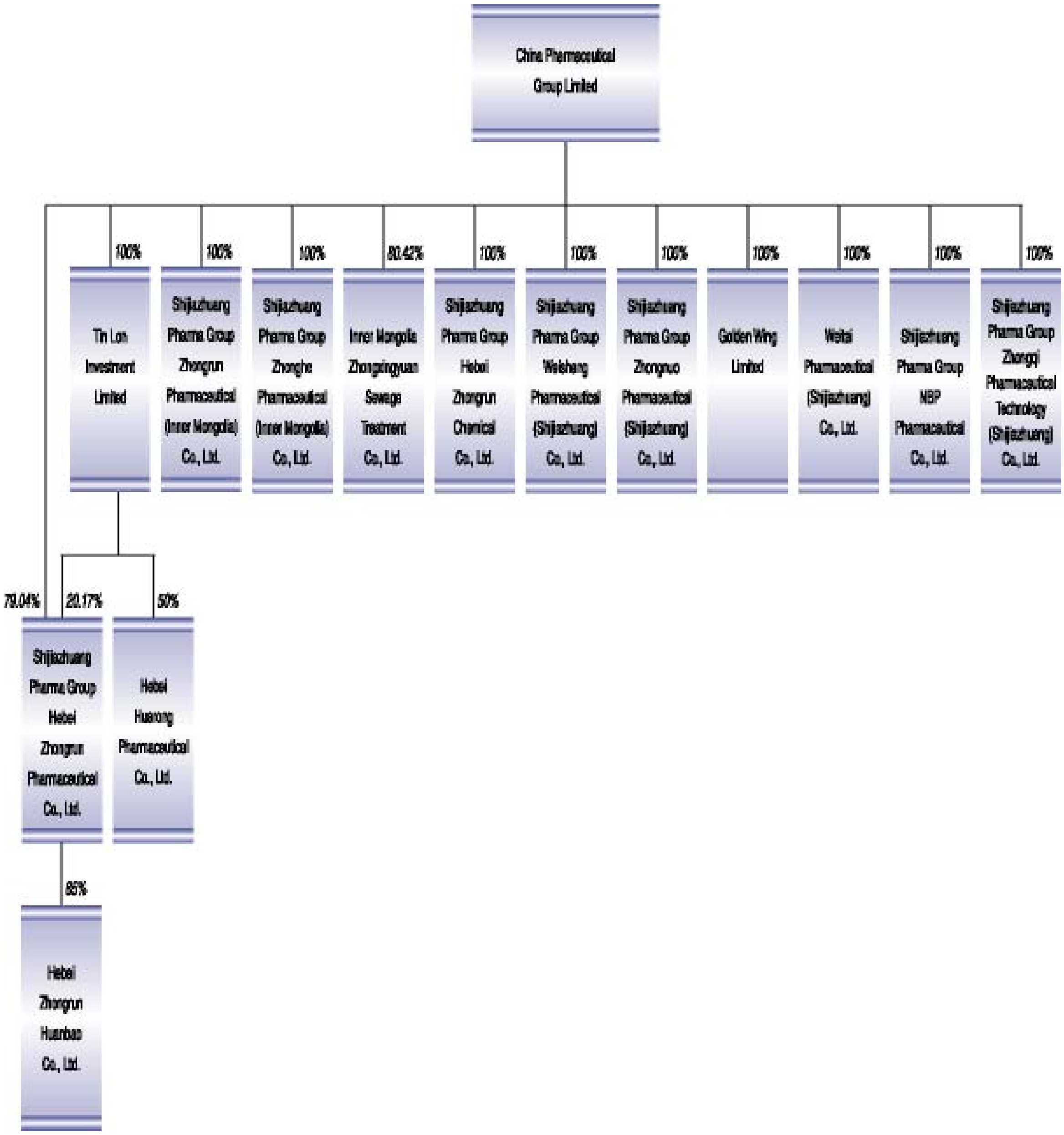
REGISTERED OFFICE
Room 3805
38th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE
Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Agricultural Bank of China, Shijiazhuang Branch
Bank of China, Huhhot Branch
China Construction Bank, Shijiazhuang Branch
China Minsheng Banking Corporation Limited, Shijiazhuang Branch
CITIC Ka Wah Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Industrial and Commercial Bank of China, Shijiazhuang Branch

STOCK EXCHANGE
The Stock Exchange of Hong Kong Limited

STOCK CODE
1093


China Pharmaceutical Group Limited
100%
Tin Lon Investment Limited
100%
Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd.
100%
Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co., Ltd.
80.42%
Inner Mongolia Zhongjingyuan Sewage Treatment Co., Ltd.
100%
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.
100%
Shijiazhuang Pharma Group Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.
100%
Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.
100%
Golden Wing Limited
100%
Weisi Pharmaceutical (Shijiazhuang) Co., Ltd.
100%
Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd.
100%
Shijiazhuang Pharma Group Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.
79.04%
20.17%
50%
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd.
Hebei Huarong Pharmaceutical Co., Ltd.
95%
Hebei Zhongrun Huanbao Co., Ltd.

RESULTS

In 2006, the Group's turnover and net profit amounted to HK$3,538.8 million and HK$15.7 million, representing an increase of 11% and a decrease of 90%, respectively.

The Board of Directors does not recommend the payment of final dividend for the year ended December 31, 2006.

BUSINESS REVIEW AND OUTLOOK

Vitamin C Series

Total sales volume of the major products of this series for the year amounted to 24,975 tonnes, a decrease of 4% over the previous year. Product prices were under pressure during the year due to overcapacity. Average price of vitamin C for the year was US$2.80 per kg, down 13.6% from US$3.24 in the previous year. Gross profit margin of the entire series decreased from 25.6% in the previous year to 13.5% in the current year.

With the product prices staying a low level, all manufacturers are not producing in full capacity. Product prices have rebounded recently and it is expected that the performance of this division will be able to improve.

Penicillin Series

Total sales volume of the major products of this series for the year amounted to 8,567 tonnes, an increase of 81% over the previous year. Product prices remained at low level for the past few years with the persisting market consolidation. Average prices of major products, namely penicillin industrial salt, amoxicillin and 6-APA, for the year were US$10.01, US$22.20 and US$20.92 per kg respectively, slightly higher than those of the previous year. Production costs decreased as a result of the increased utilization of the production lines in Inner Mongolia. Gross profit margin of the entire series increased from 6.9% in the previous year to 15.7% in the current year.

After a long period of market consolidation, product prices began to return to an upward trend in the fourth quarter of 2006. It is expected that the market condition will continue to improve.

Cephalosporin Series

Total sales volume of the major products of this series for the year amounted to 1,104 tonnes, a decrease of 5% over the previous year. With a substantial increase in market supply, there was a sharp decline in the product prices during the year. Average price of 7-ACA for the year was US$75.25 per kg, a decrease of 18.9% as compared with US$ 92.82 per kg in the previous year. Gross profit margin of the entire series decreased from 24.4 % in the previous year to 13.5% in the current year.

After rounds of price reductions, there was a slight rebound of the product prices recently. It is expected that the performance of this division will be able to stabilise.

Finished Drugs

As a result of fierce market competition, the profitability of this division further declined. Even though sales revenue for the year increased 13% to HK$1,256 million, operating profits recorded a significant drop of 50.6% to HK$31.21 million.

Market competition is expected to remain fierce. With a view to establishing a new driver of growth, the Group will put more efforts to develop the vitamin C health supplement market in the PRC while continuing to strive for growth in the generic drugs.

Patent Drug

The patent drug, butylphthalide, which was launched to the market last year, recorded a gradual growth in sales during the year. As market build-up work was still in its early stage, this business still recorded a loss in the current year.

In order to speed up the development of the drug in overseas markets, the Group entered into a license agreement with an overseas pharmaceutical company during the year. Pursuant to the agreement, the overseas pharmaceutical company is responsible for applying overseas accreditation for the drug and developing markets in America and Europe. The Group will receive milestone payments and royalties according to the progress of the overseas accreditation application and future sales.

FINANCIAL REVIEW

Liquidity and Financial Position

In 2006, the Group's operating activities generated a net cash inflow of HK$230,818,000. Capital expenditure amounted to HK$241,010,000. At December 31, 2006, the Group's current ratio was 1.0, slightly lower than 1.1 at the end of the previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in the PRC) was 55 days as compared with 51 days in the previous year. The inventory turnover period (ratio of inventories balance to cost of sales) decreased to 85 days from 110 days in the previous year.

At December 31, 2006, the Group had total borrowings of HK$1,608,493,000 (comprising bank loans of HK$1,529,000,000 and loans from ultimate holding company and a fellow subsidiary of HK$79,493,000). The maturity profile of the total borrowings spreads over a period of three years with HK$752,000,000 repayable within one year and the remaining HK$856,493,000 repayable between two to three years. Net gearing ratio was 46%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK$391,509,000 over shareholders' equity at the balance sheet date.

41% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 59% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited.

Pledge of Assets

At the balance sheet date, bank deposits of HK$4,104,000 were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

As disclosed in the Company's press announcement dated February 22, 2005, the Company and one of its subsidiary are named as, among others, defendants in certain antitrust complaints filed in the United States of America. These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volume of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws in the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the above-mentioned antitrust complaints filed in the United States. Up to the date of this report, three of the antitrust complaints have been served on the Company and the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

EMPLOYEES

At the balance sheet date, the Group had about 9,855 permanent employees and the majority of them were employed in the PRC. The Group offers competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during this year.

By order of the Board
CAI DONGCHEN
Chairman

Hong Kong, April 11, 2007

Corporate Governance Practices

The Company is committed to ensuring a high standard of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting the confidence of shareholders. The Board will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the shareholders.

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended December 31, 2006 with certain deviations from code provision A.2.1 as set out in this report.

Board of Directors

The Board currently comprises eight executive directors, one non-executive director and four independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting experience and expertise. The biographies of the directors are set out on pages 11 to 13 of the annual report.

The Board is responsible for establishing strategic direction, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group and approve business plans. Four regular Board meetings were held at approximately quarterly interval in 2006. Individual attendance of each director at the regular Board meetings during 2006 is set out below:

Director	**Attendance**	
Executive Directors:		
Mr. Cai Dongchen *(Chairman)*	3	
Mr. Wei Fumin	3	
Mr. Yue Jin	4	
Mr. Feng Zhenying	4	
Mr. Ji Jianming	4	
Mr. Chak Kin Man	4	
Mr. Pan Weidong	1	*(appointed during the year, attendance rate was 100% in 2006)*
Mr. Li Zhibiao	1	*(appointed during the year, attendance rate was 100% in 2006)*
Mr. Zhang Zheng	1	*(appointed during the year, attendance rate was 100% in 2006)*
Mr. Yao Shian	1	*(resigned during the year, attendance rate was 50% in 2006)*
Non-Executive Director:		
Mr. Lee Ka Sze, Carmelo	4	
Independent Non-Executive Directors:		
Mr. Huo Zhenxing	4	
Mr. Qi Moujia	4	
Mr. Guo Shichang	2	
Mr. Chan Siu Keung, Leonard	4	

Chairman and Managing Director

Code provision A.2.1 of the Code stipulates that the roles of chairman and managing director should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the managing director of the Company since December 1, 2005. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

Non-Executive Directors

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of two years from January 1, 2007 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

Remuneration of Directors

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies, approving the salary, bonus and other benefits of executive directors and recommending to the Board remuneration of non-executive directors. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

In 2006, in addition to two formal meetings both with attendance rate of 100%, a written resolution was obtained from all members of the committee for fixing the remuneration of the executive directors of the Company. In making recommendations to the Board, the Committee based on its review of the operating results of the Group, individual performance and comparable market statistics.

Nomination of Directors

The Board has not established a nomination committee. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board reviews the structure, size and composition of the Board from time to time and makes recommendation on the appointment of directors.

During 2006, the Board has reviewed the need to appoint new directors in light of the business development of the Group and the resignation of a director. Nomination was made by members of the Board based on the need of the Company and the expertise and experience of individual candidate. A meeting was held in 2006, which was attended by six executive directors, one non-executive director and three independent non-executive directors, to consider and approve the appointment of three new executive directors.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the year of 2006.

Audit Committee

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

The committee held four meetings in 2006 with attendance rate of 100% for all the meetings. At the meetings, the committee considered the fees charged by the auditors, reviewed the quarterly, half-yearly and annual financial statements, reviewed the auditors' management letter and management response and reviewed the annual budget of the Group.

Based on the review and discussion at the meetings, the committee recommended to the Board to approve the quarterly, half-yearly and annual results of the Group and to adopt the measures to improve the internal control system as suggested by the auditors in the management letters.

Internal Controls

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

Auditors' Remuneration

During the year, the auditors of the Company charged HK$1,600,000 for audit services and HK$457,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements, certain agreed-upon procedures and tax compliance.

Financial Reporting

The Board acknowledges its responsibility for preparing the financial statements of the Company and the Group. The reporting responsibilities of the auditors are set out in the auditors' report on page 16 to 17 of the annual report.

Shareholder Communication

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedure for voting by poll has been included in the circular of the Company accompanying notices convening general meetings and has been read out by the chairman at the general meetings held in 2006.

At the 2006 annual general meeting, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors. The respective chairman of the Board, Audit Committee and Remuneration Committee attended the 2006 annual general meeting to answer questions raised by shareholders.

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the activities of its subsidiaries and jointly controlled entity are set out in notes 40 and 19 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total sales and purchases for the year, respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2006 are set out in the consolidated income statement on page 18 of the annual report.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2006 comprised the retained profits of HK$139,975,000 (2005: HK$187,898,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to upgrade its production facilities for bulk drug products and finished drug products. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital and share options of the Company are set out in notes 29 and 30 to the consolidated financial statements, respectively.

DIRECTORS

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

Executive directors:

Cai Dongchen, Chairman	
Yue Jin	
Feng Zhenying	
Ji Jianming	
Chak Kin Man	
Pan Weidong	(appointed on October 1, 2006)
Li Zhibiao	(appointed on October 1, 2006)
Zhang Zheng	(appointed on October 1, 2006)
Wei Fumin	(resigned on April 2, 2007)
Yao Shian	(resigned on June 20, 2006)

DIRECTORS – continued

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing
Qi Moujia
Guo Shichang
Chan Siu Keung, Leonard

In accordance with Article 92 of the Company's Article of Association, Messrs. Pan Weidong, Li Zhibiao and Zhang Zheng retires at the forthcoming annual general meeting and being eligible, offers themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Ji Jianming, Lee Ka Sze, Carmelo, Qi Moujia and Chan Siu Keung, Leonard retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the non-executive director and independent non-executive directors of the Company has entered into a service contract for a term of two years from January 1, 2007.

Other than as disclosed above, no directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 53, Chairman of the Company, was appointed as an executive director of the Company in 1998. He is also the Chairman of Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), the Company's ultimate holding company. Mr. Cai graduated from Hebei Pharmaceutical Finance College in the People's Republic of China (the "PRC") has over thirty years of technical and management experience in the pharmaceutical industry.

YUE Jin

Mr. Yue, aged 43, was appointed as an executive director of the Company in 2001. He graduated from Hebei University in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

FENG Zhenying

Mr. Feng, aged 51, was appointed as an executive director of the Company in 2003. He graduated from Hebei Chemical College in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – continued

JI Jianming

Mr. Ji, aged 44, was appointed as an executive director of the Company in 2005. He graduated from Hebei University in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 41 was appointed as an executive director of the Company in 2005. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a Bachelor of Social Sciences degree from the University of Hong Kong and has over sixteen years of experience in auditing and financial management.

PAN Weidong

Mr. Pan, aged 37, was appointed as an executive director of the Company in 2006. He graduated from Shijiazhuang Post College in the PRC and has over fifteen years of experience in financial management and accounting.

LI Zhibiao

Mr. Li, aged 43, was appointed as an executive director of the Company in 2006. He holds a Master of Biology degree from Hebei Normal University in the PRC and has over fifteen years of business development and marketing experience in the pharmaceutical industry.

ZHANG Zheng

Mr. Zhang, aged 26, was appointed as an executive director of the Company in 2006. He holds a Bachelor of Business Studies degree from Charles Sturt University in Australia.

LEE Ka Sze, Carmelo

Mr. Lee, aged 46, was appointed as an independent non-executive director of the Company in 1996 and re-designated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee of the Company. He holds a Bachelor of Laws degree from the University of Hong Kong. He is a solicitor by profession and is a partner of a law firm in Hong Kong.

HUO Zhenxing

Mr. Huo, aged 71, was appointed as an independent non-executive director of the Company in 1994. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 74, was appointed as an independent non-executive director of the Company in 1996. He was the former director of the State Drug Administration of China (the "SDA", now known as the State Food and Drug Administration of China). He was the deputy chairman and chairman of the SDA in 1978 and 1982-1994, respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – continued

GUO Shichang

Mr. Guo, aged 65, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government, the PRC from 1993 to 2002.

CHAN Siu Keung, Leonard

Mr. Chan, aged 49, was appointed as an independent non-executive director of the Company in 2004. He is also a member of the Audit Committee and the Remuneration Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a Master of Business Administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no contracts of significance to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2006, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cai Dongchen	Beneficial owner	2,000,000	0.13%
Mr. Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 30 to the consolidated financial statements, at no time during the year was the Company, its holding company, fellow subsidiaries and subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER

As at December 31, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholder had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of ordinary shares of the Company held	Percentage of issued share capital
SPG	Beneficial owner and controlled corporation	783,316,161 *(Note)*	50.93%

Note: In respect of the 783,316,161 shares, 773,436,399 shares are held by SPG and 9,879,762 shares are held by China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at December 31, 2006.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 24 to the consolidated financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Pursuant to two bank loan agreements, it will be an event of default under each of the loan agreements if SPG owns less than 40% of the issued share capital of the Company. The outstanding principal of these bank loans at December 31, 2006 amounted to HK$654,000,000 and the last instalment repayment is due in April 2009.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.18 of the Listing Rules.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emoluments of the directors of the Company are determined by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 30 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended December 31, 2006.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Cai Dongchen
CHAIRMAN

Hong Kong, April 11, 2007

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA PHARMACEUTICAL GROUP LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 62 which comprise the consolidated and Company balance sheets as at December 31, 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 consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, April 11, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Revenue	6	**3,538,754**	3,192,065
Cost of sales		**(2,925,429)**	(2,498,501)
Gross profit		**613,325**	693,564
Other income		**34,814**	21,157
Distribution costs		**(232,511)**	(182,723)
Administrative expenses		**(308,094)**	(293,231)
Other expenses		**(6,808)**	(20,537)
Share of loss of a jointly controlled entity		**(3,350)**	(1,099)
Finance costs	7	**(95,776)**	(68,139)
Profit before tax		**1,600**	148,992
Income tax	8	**13,763**	7,301
Profit for the year	9	**15,363**	156,293
Attributable to:			
Equity holders of the Company		**15,664**	156,518
Minority interests		**(301)**	(225)
		15,363	156,293
Dividend	12	**-**	-
Earnings per share - basic	13	**HK1.02 cents**	HK10.18 cents

CONSOLIDATED BALANCE SHEET

At December 31, 2006

	NOTES	**2006**	2005
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	14	**3,233,026**	3,176,949
Prepaid lease payments	15	**145,923**	154,612
Intangible assets	16	**48,275**	61,233
Goodwill	17	**55,764**	55,764
Interest in a jointly controlled entity	19	**21,646**	24,086
Pledged bank deposits	20	**1,312**	2,428
		3,505,946	3,475,072
Current assets			
Inventories	21	**682,935**	756,053
Trade and other receivables	22	**574,488**	512,987
Bills receivable	22	**98,501**	118,281
Prepaid lease payments	15	**4,361**	4,474
Loan receivable	23	**-**	670
Tax recoverable		**1,165**	8,096
Trade receivables due from related companies	24	**2,660**	14,393
Amount due from a jointly controlled entity	24	**13,155**	17,047
Pledged bank deposits	20	**2,792**	-
Bank balances and cash	20	**387,405**	472,706
		1,767,462	1,904,707
Current liabilities			
Trade and other payables	25	**754,147**	974,756
Bills payable	25	**223,118**	403,876
Trade payables due to related companies	24	**11,360**	-
Amounts due to related companies	24	**10,454**	4,146
Trade payable due to a jointly controlled entity	24	**-**	3,107
Tax liabilities		**15,002**	7,328
Unsecured bank loans	26	**752,000**	344,804
		1,766,081	1,738,017
Net current assets		**1,381**	166,690
Total assets less current liabilities		**3,507,327**	3,641,762

	NOTES	**2006** **HK$'000**	2005 *HK$'000*
Non-current liabilities			
Loans from ultimate holding company	27	**59,493**	55,488
Loan from a fellow subsidiary	28	**20,000**	-
Unsecured bank loans	26	**777,000**	1,090,746
		856,493	1,146,234
		2,650,834	2,495,528
Capital and reserves			
Share capital	29	**153,812**	153,812
Reserves		**2,487,829**	2,331,020
Equity attributable to equity holders of the Company		**2,641,641**	2,484,832
Minority interests		**9,193**	10,696
		2,650,834	2,495,528

The consolidated financial statements from pages 18 to 62 were approved and authorised for issue by the Board of Directors on April 11, 2007 and are signed on its behalf by:

CHAK Kin Man
Director

PAN Weidong
Director

BALANCE SHEET

At December 31, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	14	**674**	1,115
Investments in subsidiaries	31	**1,202,044**	1,202,052
		1,202,718	1,203,167
Current assets			
Other receivables		**4,808**	6,592
Amounts due from subsidiaries	32	**866,733**	908,243
Bank balances and cash	20	**3,429**	24,393
		874,970	939,228
Current liabilities			
Other payables		**13,174**	13,654
Amount due to a subsidiary	32	**-**	304
Unsecured bank loans	26	**242,000**	96,000
		255,174	109,958
Net current assets		**619,796**	829,270
Total assets less current liabilities		**1,822,514**	2,032,437
Non-current liability			
Unsecured bank loans	26	**412,000**	574,000
		1,410,514	1,458,437
Capital and reserves			
Share capital	29	**153,812**	153,812
Reserves	33	**1,256,702**	1,304,625
		1,410,514	1,458,437

CHAK Kin Man
Director

PAN Weidong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

	Attributable to equity holders of the Company									
	Share capital	**Share premium**	**Capital contribution**	**Goodwill reserve**	**Translation reserve**	**Non-distributable reserves**	**Retained profits**	**Total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2005	153,812	1,116,727	1,362	(167,254)	2,692	276,334	876,213	2,259,886	10,058	2,269,944
Exchange differences arising on translation to presentation currency	-	-	-	-	68,428	-	-	68,428	218	68,646
Profit for the year	-	-	-	-	-	-	156,518	156,518	(225)	156,293
Total recognised income and expense for the year	-	-	-	-	68,428	-	156,518	224,946	(7)	224,939
Transfers	-	-	-	-	-	79,190	(79,190)	-	-	-
Capital contributions by minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	1,331	1,331
Dividends paid to minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	(686)	(686)
At December 31, 2005	153,812	1,116,727	1,362	(167,254)	71,120	355,524	953,541	2,484,832	10,696	2,495,528
Exchange differences arising on translation to presentation currency	-	-	-	-	140,908	-	-	140,908	393	141,301
Profit for the year	-	-	-	-	-	-	15,664	15,664	(301)	15,363
Total recognised income and expense for the year	-	-	-	-	140,908	-	15,664	156,572	92	156,664
Transfers	-	-	-	-	-	27,242	(27,242)	-	-	-
Capital contribution from ultimate holding company	-	-	237	-	-	-	-	237	-	237
Release upon disposal of a subsidiary *(Note 2)*	-	-	-	-	-	-	-	-	(1,595)	(1,595)
At December 31, 2006	153,812	1,116,727	1,599	(167,254)	212,028	382,766	941,963	2,641,641	9,193	2,650,834

Note 1: The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and jointly controlled entity in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

Note 2: During the year ended December 31, 2006, M2B.com.hk Limited, a non-wholly owned subsidiary of the Company, was disposed of.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2006

	2006	2005
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**1,600**	148,992
Adjustments for:		
Interest income	**(4,284)**	(2,687)
Share of loss of a jointly controlled entity	**3,350**	1,099
Finance costs	**95,776**	68,139
Depreciation of property, plant and equipment	**311,391**	245,456
Amortisation of prepaid lease payments	**4,361**	4,474
Amortisation of intangible assets	**20,902**	16,585
(Gain) loss on disposal of property, plant and equipment	**(3)**	15,780
Release of a liability from a minority shareholder	**(1,595)**	-
Operating cash flows before movements in working capital	**431,498**	497,838
Decrease (increase) in inventories	**73,118**	(303,198)
Increase in trade and other receivables	**(61,501)**	(99,358)
Decrease (increase) in bills receivable	**19,780**	(27,950)
Decrease (increase) in trade receivables due from related companies	**11,733**	(10,539)
Decrease (increase) in amount due from a jointly controlled entity	**3,892**	(241)
(Decrease) increase in trade and other payables	**(112,521)**	113,416
(Decrease) increase in bills payable	**(180,758)**	15,836
Increase in trade payables due to related companies	**11,360**	-
Increase (decrease) in amounts due to related companies	**6,308**	(136)
Decrease in trade payable due to a jointly controlled entity	**(3,107)**	(1,307)
Cash generated from operations	**199,802**	184,361
PRC Enterprise Income Tax refunds	**34,250**	10,859
PRC Enterprise Income Tax paid	**(3,234)**	(8,312)
NET CASH FROM OPERATING ACTIVITIES	**230,818**	186,908
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(335,997)**	(421,168)
Purchase of technical know-how	**(5,778)**	(6,521)
Prepayment of land leases	**(3,090)**	(57,005)
(Increase) decrease in pledged bank deposits	**(1,676)**	14,270
Proceeds from early termination of land leases	**14,740**	-
Interest received	**4,284**	2,687
Repayment of loan receivable	**670**	780
Proceeds from disposal of property, plant and equipment	**173**	7,987
NET CASH USED IN INVESTING ACTIVITIES	**(326,674)**	(458,970)

	2006	2005
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Bank loans raised	**785,000**	1,252,440
Loan raised from ultimate holding company	**1,400**	-
Loan raised from a fellow subsidiary	**20,000**	-
Capital contributed by minority shareholders of a subsidiary	**-**	1,331
Repayment of bank loans	**(726,000)**	(893,119)
Interest paid	**(95,443)**	(74,862)
Dividends paid	**-**	(54,141)
Dividends paid to minority shareholders	**-**	(686)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(15,043)**	230,963
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(110,899)**	(41,099)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**472,706**	501,346
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**25,598**	12,459
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**387,405**	472,706

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's parent and ultimate holding company is Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), a state-owned enterprise incorporated in the People's Republic of China (the "PRC"). SPG, together with the companies under its control, other than the Company and its subsidiaries (collectively referred to as the "Group"), will hereinafter be referred to as the "SPG Group". The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HKD") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The adoption of the new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"[3]
HK(IFRIC) - INT 8	Scope of HKFRS 2[4]
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC) - INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after January 1, 2007.
2 Effective for annual periods beginning on or after January 1, 2009.
3 Effective for annual periods beginning on or after March 1, 2006.
4 Effective for annual periods beginning on or after May 1, 2006.
5 Effective for annual periods beginning on or after June 1, 2006.
6 Effective for annual periods beginning on or after November 1, 2006.
7 Effective for annual periods beginning on or after March 1, 2007.
8 Effective for annual periods beginning on or after January 1, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to December 31, each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments which represents up-front payments to acquire leasehold land interests are stated at cost and amortised over the period of the lease on a straight-line basis.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition critieria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Goodwill

Goodwill arising on acquisitions of subsidiaries and a jointly controlled entity for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries and jointly controlled entity at the date of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

Goodwill arising on acquisitions of subsidiaries and a jointly controlled entity prior to January 1, 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit ("CGU") to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on an acquisition of a subsidiary after January 1, 2001, the Group has discontinued amortisation from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the CGU to which the goodwill relates may be impaired (see the accounting policy below).

For the purpose of impairment testing, goodwill arising from an acquisition of subsidiary is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for the goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity is referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Jointly controlled entity – continued

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, trade receivables due from related companies, amount due from a jointly controlled entity, loan receivable, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

(ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bills payable, trade payables due to related companies, amounts due to related companies, trade payable due to a jointly controlled entity, unsecured bank loans, loans from ultimate holding company and loan from a fellow subsidiary are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses, other than goodwill (see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services rendered by the Group in the normal course of business, and is stated net of value-added tax and sales returns.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

Operating lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Company (i.e. HKD) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make estimates and 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

Determining whether goodwill on subsidiaries is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was HK$215,894,000. At the balance sheet date, the directors assessed the need to provide impairment loss on the goodwill and the carrying amount of the goodwill was sustained by the result. Details of the impairment test are provided in note 18.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, trade receivable due from related companies, amount due from a jointly controlled entity, bank balances, trade payables, bills payable, trade payables due to related companies, amounts due to related companies, trade payable due to a jointly controlled entity, unsecured bank loans, loans from ultimate holding company and loan from a fellow subsidiary.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at December 31, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties. In order to minimise the credit risk, the management has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At the balance sheet date, the management reviews the financial positions of the jointly controlled entity and the repayment records. In this regards, the management considers that the Group's credit risk on amount due from the jointly controlled entity is minimal.

The Group's concentration of credit risk by geographical locations of customers is mainly the PRC which accounted for 90% of the trade receivable at December 31, 2006.

5. FINANCIAL INSTRUMENTS – continued

a. Financial risk management objectives and policies – continued

Credit risk – continued

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining the flexibility in funding by arranging banking facilities and other external financing. Therefore, the risk is considered minimal.

Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Though several subsidiaries of the Company have foreign currency sales, mainly in United States Dollars and Euro Dollars, which expose the Group to foreign currency risk, the directors consider that the risk is minimal to the Group at current stage.

The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure closely and consider the usage of hedging instruments when the need arises.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank loans (see note 26 for details of these loans), which are raised from the banks in the PRC. In relation to these fixed-rate loans, the Group aims to keep loans at rates that are comparable to those in the market. In order to achieve this result, the Group negotiated with the banks and entered into various revolving loans such that the interest rate associated with the loans is more or less variable. In this regard, the directors of the Company consider that the Group's fair value interest rate risk is minimised.

Cash flow interest rate risk

The cash flow interest rate exposure for the Group is restricted to the floating rate bank loans (see note 26 for details of these loans). The Group currently does not use interest rate swap to swap its borrowings from floating rates to fixed rates as the management believes that changes in the interest rate will not have a significant impact on the Group's financial position. However, the management monitors closely the interest rate exposure and will consider using interest rate swap should the need arise.

5. FINANCIAL INSTRUMENTS – continued

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the consideration received or receivable for goods sold and services rendered by the Group to outside customers, and are stated net of value-added tax and sales returns during the year.

An analysis of the Group's revenue for the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of goods	**3,536,575**	3,186,904
Service income	**2,179**	5,161
	3,538,754	3,192,065

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

6. REVENUE AND SEGMENT INFORMATION – continued

Business segments

The Group reports its primary segment information by products which are bulk drugs, including penicillin series, cephalosporin series and vitamin C series, finished drugs and others. Segment information about these products is presented below:

For the year ended December 31, 2006:

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE							
External sales	1,016,186	671,996	575,303	1,255,518	19,751	-	3,538,754
Inter-segment sales	202,634	78,740	606	-	-	(281,980)	-
TOTAL REVENUE	1,218,820	750,736	575,909	1,255,518	19,751	(281,980)	3,538,754

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULTS	83,966	30,371	(10,626)	31,214	(19,934)		114,991
Unallocated corporate income							2,481
Unallocated corporate expenses							(16,746)
							100,726
Share of loss of a jointly controlled entity					(3,350)		(3,350)
Finance costs							(95,776)
Profit before tax							1,600
Income tax							13,763
Profit for the year							15,363

6. REVENUE AND SEGMENT INFORMATION – continued

Business segments – continued

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2006:

	Bulk Drugs					
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,518,976	1,307,360	1,338,859	820,300	253,340	5,238,835
Interest in a jointly controlled entity					21,646	21,646
Unallocated corporate assets						12,927
Consolidated total assets						5,273,408
LIABILITIES						
Segment liabilities	193,690	257,457	193,655	294,999	39,100	978,901
Unallocated corporate liabilities						1,643,673
Consolidated total liabilities						2,622,574

For the year ended December 31, 2006:

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Unallocated corporate**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION							
Capital additions	120,878	52,019	54,409	8,362	5,339	3	241,010
Depreciation and amortisation	119,209	97,728	79,539	22,380	17,353	445	336,654

6. REVENUE AND SEGMENT INFORMATION – continued

Business segments – continued

For the year ended December 31, 2005:

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE							
External sales	525,091	855,131	692,507	1,109,971	9,365	-	3,192,065
Inter-segment sales	219,615	137,039	-	-	-	(356,654)	-
TOTAL REVENUE	744,706	992,170	692,507	1,109,971	9,365	(356,654)	3,192,065

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULTS	(9,220)	117,849	87,840	63,131	(21,728)		237,872
Unallocated corporate income							4,325
Unallocated corporate expenses							(23,967)
							218,230
Share of loss of a jointly controlled entity					(1,099)		(1,099)
Finance costs							(68,139)
Profit before tax							148,992
Income tax							7,301
Profit for the year							156,293

6. REVENUE AND SEGMENT INFORMATION – continued

Business segments – continued

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2005:

	Bulk Drugs					
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,676,073	1,161,005	1,314,016	919,060	242,235	5,312,389
Interest in a jointly controlled entity					24,086	24,086
Unallocated corporate assets						43,304
Consolidated total assets						5,379,779
LIABILITIES						
Segment liabilities	339,974	194,934	251,026	536,860	46,331	1,369,125
Unallocated corporate liabilities						1,515,126
Consolidated total liabilities						2,884,251

For the year ended December 31, 2005:

	Bulk Drugs						
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Unallocated corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION							
Capital additions	292,576	23,469	78,621	37,424	106,907	3	539,000
Depreciation and amortisation	82,215	90,086	64,235	20,037	9,346	596	266,515

6. REVENUE AND SEGMENT INFORMATION – continued

Geographical segments

The Group's operations are located in the PRC, and the following table provides an analysis of the Group's sales by geographical market:

	Revenue	
	2006	2005
	HK$'000	*HK$'000*
The PRC	**2,486,009**	2,325,016
Asia other than the PRC	**614,837**	408,984
Europe	**216,860**	252,810
America	**191,301**	175,927
Others	**29,747**	29,328
	3,538,754	3,192,065

Analysis of carrying amounts of segment assets, and additions to property, plant and equipment and intangible assets are not presented as over 90% of the amounts involved are located in the PRC.

7. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
- bank loans wholly repayable within five years	**82,670**	53,326
- loans from ultimate holding company wholly repayable within five years (note 27)	**1,819**	1,651
- loan from a fellow subsidiary wholly repayable within five years (note 28)	**481**	-
- bills receivable discounted without recourse	**8,576**	14,705
Bank loan arrangement fees	**1,897**	5,180
Imputed interest expense on non-current interest-free loan from ultimate holding company (note 27)	**333**	278
Total borrowing costs	**95,776**	75,140
Less: interest capitalised in construction in progress	**-**	(7,001)
	95,776	68,139

For the year ended December 31, 2005, the borrowing costs capitalised arose on the general borrowing pool and were calculated by applying a capitalisation rate of 4.5% to expenditure on qualifying assets.

8. INCOME TAX

	2006	2005
	HK$'000	*HK$'000*
The tax credit comprises:		
PRC Enterprise Income Tax		
- current year	**4,285**	19,335
- overprovision in prior years	**(1,337)**	(3,813)
- tax credits/refunds	**(16,711)**	(22,823)
	(13,763)	(7,301)

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they either had no assessable profits or incurred tax losses for both years.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption and relief from PRC income tax starting from their first profit-making years.

In addition, pursuant to approvals granted by the relevant tax authorities, certain subsidiaries of the Company were granted tax credits/refunds which were mainly derived from the following activities:

a) Two subsidiaries of the Company were entitled to tax refunds on the basis that such subsidiaries have, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to three PRC subsidiaries set up in previous years.

b) Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current and future tax charges of the subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authorities.

The income tax for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

8. INCOME TAX – continued

The tax credit for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**1,600**	148,992
Tax at the domestic income tax rate of 27% (2005: 27%)	**432**	40,228
Tax effect of income not taxable for tax purpose	**(878)**	(2,006)
Tax effect of expenses not deductible for tax purpose	**10,320**	25,839
Tax effect of share of loss of a jointly controlled entity	**904**	297
Tax effect of tax losses not recognised	**29,182**	11,368
Utilisation of tax losses previously not recognised	**(4,912)**	(23)
Effect of tax exemption and relief granted to PRC subsidiaries	**(30,763)**	(56,410)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**-**	42
Tax credits/refunds granted to PRC subsidiaries	**(16,711)**	(22,823)
Overprovision in respect of prior years	**(1,337)**	(3,813)
Tax credit for the year	**(13,763)**	(7,301)

At the balance sheet date, the Group had unused tax losses of HK$141,262,000 (2005: HK$51,376,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2011.

There was no other significant unprovided deferred tax for the year or at the balance sheet date.

9. PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Employee benefits expenses including those of directors	**252,032**	229,034
Contribution to retirement benefits schemes including those of directors	**43,104**	41,222
Total employee benefits expenses including those of directors	**295,136**	270,256
Depreciation of property, plant and equipment	**311,391**	245,456
Amortisation of prepaid lease payments	**4,361**	4,474
Amortisation of intangible assets	**20,902**	16,585
Total depreciation and amortisation	**336,654**	266,515
Auditors' remuneration	**1,600**	1,600
Net foreign exchange loss	**2,726**	1,664
Research and development expenses	**8,148**	6,217
(Gain) loss on disposal of property, plant and equipment	**(3)**	15,780
Interest income	**(4,284)**	(2,687)
Release of liability from a minority shareholder	**(1,595)**	-

Note: For the year ended December 31, 2005 and 2006, cost of inventories recognised as an expense approximates cost of sales as shown in the consolidated income statement.

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 15 (2005: 13) directors were as follows:

2006

	Cai Dongchen	Wei Fumin	Yue Jin	Feng Zhenying	Ji Jianming	Yao Shian	Chak Kin Man	Pan Weidong	Li Zhibiao	Zhang Zheng	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	60	-	60	30	30	30	240	60	60	60	120	990
Other emoluments:																
Salaries and other benefits	3,041	2,127	207	213	209	93	1,170	54	135	101	-	-	-	-	-	7,350
Contribution to retirement benefits schemes	246	166	8	8	8	4	108	2	11	8	-	-	-	-	-	569
Performance related incentive payments (note)	300	243	127	245	114	68	150	25	11	8	-	-	-	-	-	1,291
Total emoluments	3,647	2,596	402	526	391	165	1,488	111	187	147	240	60	60	60	120	10,200

2005

	Cai Dongchen	Ding Ergang	Wei Fumin	Yue Jin	Feng Zhenying	Ji Jianming	Yao Shian	Chak Kin Man	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	55	60	60	60	50	50	5	240	60	60	60	120	940
Other emoluments:														
Salaries and other benefits	2,715	1,760	2,027	173	206	172	122	87	-	-	-	-	-	7,262
Contribution to retirement benefits schemes	217	145	172	7	7	6	5	8	-	-	-	-	-	567
Performance related incentive payments (note)	600	1,000	450	207	253	133	158	25	-	-	-	-	-	2,826
Total emoluments	3,592	2,960	2,709	447	526	361	335	125	240	60	60	60	120	11,595

No directors waived any emoluments in the years ended December 31, 2006 and 2005.

Note: The above remuneration is determined by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company during the whole financial year whose emoluments are included in note 10 above. The emoluments of the remaining individual who was appointed as an executive director of the Company during the year were as follows:

	2006	2005
	HK$'000	*HK$'000*
Director's fee	**30**	5
Salaries and other benefits	**395**	820
Contributions to retirement benefits scheme	**34**	74
Performance related incentive payments	**32**	300
	491	1,199

12. DIVIDEND

No dividend was proposed by the directors for the years ended December 31, 2006 and 2005.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended December 31, 2006 is based on the profit for the year of HK$15,664,000 (2005: HK$156,518,000) and the 1,538,124,661 shares (2005: 1,538,124,661 shares) in issue during the year.

No diluted earnings per share is presented for the years ended December 31, 2006 and 2005 as there were no potential ordinary shares in issue during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
THE GROUP						
COST						
At January 1, 2005	502,265	2,198,220	10,779	11,791	842,023	3,565,078
Exchange adjustments	11,535	50,485	163	248	19,335	81,766
Additions	5,292	31,603	1,561	7,075	429,943	475,474
Transfers	322,330	866,447	932	-	(1,189,709)	-
Disposals	(955)	(38,107)	(1,770)	(3,304)	-	(44,136)
At December 31, 2005	840,467	3,108,648	11,665	15,810	101,592	4,078,182
Exchange adjustments	41,711	145,234	524	783	4,064	192,316
Additions	28,647	61,300	2,546	2,984	135,664	231,141
Transfers	71,068	75,754	-	-	(146,822)	-
Disposals	-	(2,532)	-	(2,381)	-	(4,913)
At December 31, 2006	981,893	3,388,404	14,735	17,196	94,498	4,496,726
DEPRECIATION						
At January 1, 2005	68,898	577,468	2,492	7,903	-	656,761
Exchange adjustments	2,135	16,601	62	204	-	19,002
Provided for the year	32,208	208,461	2,191	2,596	-	245,456
Eliminated on disposals	(842)	(17,077)	(419)	(1,648)	-	(19,986)
At December 31, 2005	102,399	785,453	4,326	9,055	-	901,233
Exchange adjustments	6,388	45,511	224	464	-	52,587
Provided for the year	45,616	260,649	2,487	2,639	-	311,391
Eliminated on disposals	-	(1,368)	-	(143)	-	(1,511)
At December 31, 2006	154,403	1,090,245	7,037	12,015	-	1,263,700
CARRYING VALUES						
At December 31, 2006	827,490	2,298,159	7,698	5,181	94,498	3,233,026
At December 31, 2005	738,068	2,323,195	7,339	6,755	101,592	3,176,949

At December 31, 2006, no borrowing cost (2005: HK$7,001,000) was capitalised and included in construction in progress.

14. PROPERTY, PLANT AND EQUIPMENT – continued

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At December 31, 2006, the net book value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$567,696,000 (2005: HK$483,425,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At January 1, 2005	2,222	1,005	3,227
Additions	3	-	3
At December 31, 2005	2,225	1,005	3,230
Additions	4	-	4
At December 31, 2006	2,229	1,005	3,234
DEPRECIATION			
At January 1, 2005	665	854	1,519
Provided for the year	445	151	596
At December 31, 2005	1,110	1,005	2,115
Provided for the year	445	-	445
At December 31, 2006	1,555	1,005	2,560
CARRYING VALUES			
At December 31, 2006	674	-	674
At December 31, 2005	1,115	-	1,115

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	3.3% - 5%
Plant and machinery	5% - 10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK$150,284,000 (2005: HK$159,086,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$4,361,000 (2005: HK$4,474,000) is classified under current assets for reporting purpose.

16. INTANGIBLE ASSETS

	Technical know-how	Development costs	Utility rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
COST				
At January 1, 2005	65,059	20,906	68,823	154,788
Exchange adjustments	1,494	480	1,581	3,555
Additions	6,521	-	-	6,521
At December 31, 2005	73,074	21,386	70,404	164,864
Exchange adjustments	3,514	962	3,168	7,644
Additions	5,778	-	-	5,778
At December 31, 2006	82,366	22,348	73,572	178,286
AMORTISATION				
At January 1, 2005	46,316	8,849	29,673	84,838
Exchange adjustments	855	553	800	2,208
Provided for the year	7,127	2,536	6,922	16,585
At December 31, 2005	54,298	11,938	37,395	103,631
Exchange adjustments	2,814	705	1,959	5,478
Provided for the year	9,519	4,302	7,081	20,902
At December 31, 2006	66,631	16,945	46,435	130,011
CARRYING VALUES				
At December 31, 2006	15,735	5,403	27,137	48,275
At December 31, 2005	18,776	9,448	33,009	61,233

At December 31, 2006, included in development costs was an amount of HK$3,848,000 (2005: HK$3,682,000) which was internally generated while all other intangible assets of the Group were acquired from independent third parties.

16. INTANGIBLE ASSETS – continued

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Technical know-how	5 to 10 years
Development costs	3 to 5 years from date of commencement of commercial operation
Utility rights	10 years

Utility rights represent up-front non-refundable payment to secure the rights to use electricity in the PRC over 10 years.

17. GOODWILL

	HK$'000
COST	
At January 1, 2005 and 2006 and December 31, 2006	55,764

Particulars regarding impairment testing on goodwill are disclosed in note 18.

18. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill with indefinite useful lives as set out in note 17 and goodwill reserves has been allocated to two individual cash generating units ("CGUs"). The carrying amount of goodwill as at December 31, 2006 has been allocated to the following units:

	HK$'000
Business segment of finished drugs ("Unit A")	55,764
Manufacture of penicillin ("Unit B")	160,130
	215,894

During the year ended December 31, 2006, management of the Group determines that there is no impairment of the above-mentioned CGUs containing the goodwill. The basis of the recoverable amounts of the CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 4.5% per annum, for both Unit A and Unit B, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the CGUs to exceed their aggregate recoverable amounts.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**21,646**	24,086

At December 31, 2006, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

At January 1, 2005 and 2006 and December 31, 2006, included in the goodwill reserves was goodwill of HK$7,124,000 arising on acquisition of the jointly controlled entity in prior years.

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2006	2005
	HK$'000	*HK$'000*
Current assets	**31,496**	33,247
Non-current assets	**59,906**	55,773
Current liabilities	**(59,990)**	(53,441)
Non-current liabilities	**(10,730)**	(12,457)
Income	**87,491**	71,661
Expenses	**90,841**	72,760

20. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances and pledged bank deposits carry interest at market rates which range from 1.4% to 2.6% (2005: 1.4% to 2.1%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$2,792,000 (2005: Nil) have been pledged to secure short-term bank borrowings and therefore classified as current assets. The remaining deposits amounting to HK$1,312,000 (2005: HK$2,428,000) have been pledged to secure banking facilities granted to the Group for the acquisition of property, plant and equipment and therefore classified as non-current assets.

21. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**82,193**	82,754
Work in progress	**174,151**	199,186
Finished goods	**426,591**	474,113
	682,935	756,053

22. TRADE AND OTHER RECEIVABLES/ BILLS RECEIVABLE

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**497,288**	379,192
Bills receivable	**98,501**	118,281
	595,789	497,473
Other receivables	**77,200**	133,795
	672,989	631,268

The Group allows a credit period from 30 days to 90 days to its trade customers. The following is an aged analysis of trade and bills receivables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 to 90 days	**559,880**	472,208
91 to 180 days	**35,731**	24,436
181 to 365 days	**178**	829
	595,789	497,473

23. LOAN RECEIVABLE

The amount was unsecured, carried interest rate of 6.435% per annum and was fully repaid during the year.

24. CONNECTED AND RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(I) CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP 2006 *HK$'000*	2005 *HK$'000*
The SPG Group	Sale of steam (note a)	**2,672**	4,897
	Purchase of raw materials (note a)	**266,499**	158,948
	Rental expense (note b)	**5,787**	3,350
	Interest expense on loans from ultimate holding company (note d)	**2,152**	1,929
	Interest expense on loan from a fellow subsidiary (note d)	**481**	-
	Bank guarantee (note e)	**400,000**	-
	Balance due from (to) the SPG Group at December 31		
	- trade receivables (note f)	**2,660**	14,393
	- trade payables (note f)	**(11,360)**	-
	- other payables (note f)	**(10,454)**	(4,146)
	- long-term loans (note d)	**(79,493)**	(55,488)

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP 2006 *HK$'000*	2005 *HK$'000*
Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), an associate of SPG (note i)	Sales of raw materials (note a)	-	503
	Sales of finished goods (note a)	-	5,301
	Purchase of finished goods (note a)	-	23,437
	Rental expenses (note b)	-	1,085

24. CONNECTED AND RELATED PARTY DISCLOSURES – continued

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES – continued

Name of company	Nature of transactions/ balances	THE GROUP 2006 HK$'000	2005 HK$'000
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note c)	-	502
	Income from provision of technology consultancy services (note g)	-	19
	Income from leasing of property, plant and equipment (note g)	-	183
Huarong, a jointly controlled entity of the Group	Sales of finished goods (note a)	**4,695**	3,259
	Purchase of raw materials (note a)	**36,062**	33,039
	Income from provision of technology consultancy services (note g)	**173**	461
	Provision of utility services by the Group (note h)	**10,416**	7,339
	Balance due from (to) Huarong at December 31		
	- dividend receivable	**6,122**	6,122
	- other receivables (note f)	**7,033**	10,925
	- trade payables (note f)	**-**	(3,107)

(III) OTHER STATE-OWNED ENTITIES IN THE PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to the followings:

- lending and deposit taking;
- taking and placing of inter-bank balances;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

24. CONNECTED AND RELATED PARTY DISCLOSURES – continued

(III) OTHER STATE-OWNED ENTITIES IN THE PRC – continued

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationship, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors as key management of the Group during the year was as follows:

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**8,641**	10,088
Post-employment benefits	**569**	567
	9,210	10,655

The above remuneration is determined by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Notes:

(a) The transactions were carried out with reference to the market prices.

(b) Rental expenses were paid in accordance with the tenancy agreements .

(c) Pursuant to the services agreements, the service fees paid for all composite services, other than the provision of utilities, were based on actual costs incurred by Ouyi. For the provision of utilities, the service fees paid were based on the actual costs of the utilities incurred by the Group plus 2% as the handling charge.

(d) Details of the loans are set out in note 27 and note 28.

(e) Guarantees were given by SPG to banks to secure bank loans granted to the Group.

(f) At the balance sheet date, the amount was aged within one year.

(g) The transactions were based on terms agreed by both parties.

(h) The transactions were based on the actual cost of utilities incurred by the Group.

(i) Ouyi was a former associate company of SPG and the relationship ceased on July 31, 2005. Only the transactions with Ouyi prior to July 31, 2005 were considered as related party transactions.

25. TRADE AND OTHER PAYABLES/BILLS PAYABLE

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade payables	**406,100**	498,933
Bills payable	**223,118**	403,876
	629,218	902,809
Other payables	**348,047**	475,823
	977,265	1,378,632

The following is an aged analysis of trade and bills payables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 to 90 days	**555,975**	787,371
91 to 180 days	**54,433**	69,611
181 to 365 days	**9,917**	26,432
More than 365 days	**8,893**	19,395
	629,218	902,809

26. UNSECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The unsecured bank loans are repayable as follows:				
On demand or within one year	**752,000**	344,804	**242,000**	96,000
More than one year, but not more than two years	**562,000**	758,746	**292,000**	242,000
More than two years, but not more than five years	**215,000**	332,000	**120,000**	332,000
	1,529,000	1,435,550	**654,000**	670,000
Less: Amount due within one year shown under current liabilities	**(752,000)**	(344,804)	**(242,000)**	(96,000)
Amount due after one year	**777,000**	1,090,746	**412,000**	574,000

26. UNSECURED BANK LOANS – continued

The fair value of the above bank loans at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Fixed-rate RMB bank loans	**875,000**	765,550	**-**	-
Floating-rate HKD bank loans	**654,000**	670,000	**654,000**	670,000
	1,529,000	1,435,550	**654,000**	670,000

The interest rates of the Group's fixed-rate RMB bank loans and floating-rate HKD bank loans are 5.02% to 6.76% (2005: 4.8% to 5.8%) per annum and 4.47% to 5.46% (2005: 1.0% to 5.2%) per annum, respectively.

At the balance sheet date, the Group and the Company had no undrawn loan facilities (2005: HK$80,000,000) in respect of floating-rate HKD bank loans.

27. LOANS FROM ULTIMATE HOLDING COMPANY

The loans are unsecured and are analysed as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Loans from SPG:		
- interest bearing at the rate of 3.78% per annum	**50,000**	47,847
- interest-free	**9,493**	7,641
	59,493	55,488

At December 31, 2006, the fair value of the interest-free portion of loans from SPG of HK$9,493,000 (2005: HK$7,641,000) was determined based on the present value of the estimated future cash outflows discounted using the effective interest rate of 3.78%.

As SPG had agreed not to demand repayment of the above loans within twelve months from the balance sheet date, the loans are classified as non-current liabilities.

28. LOAN FROM A FELLOW SUBSIDIARY

The amount is unsecured and carries interest rate of 6% per annum. Since the fellow subsidiary has agreed not to demand repayment of the above loan within twelve months from the balance sheet date, the loan is classified as non-current liability.

At December 31, 2005, there was no loan from a fellow subsidiary.

29. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At December 31, 2005 and 2006	3,000,000,000	300,000
Issued and fully paid:		
At December 31, 2005 and 2006	1,538,124,661	153,812

30. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted on July 6, 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceed 0.1% of the total number of shares in issue and have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

31. INVESTMENTS IN SUBSIDIARIES

	2006	2005
	HK$'000	*HK$'000*
Unlisted investment, at cost	**1,202,044**	1,202,052

Particulars of the Company's subsidiaries as at December 31, 2006 are set out in note 40.

32. AMOUNTS DUE FROM SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The amounts are unsecured, interest-free and repayable on demand.

33. RESERVES

	Share premium	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
At January 1, 2005	1,116,727	174,282	1,291,009
Profit for the year	-	13,616	13,616
At December 31, 2005	1,116,727	187,898	1,304,625
Loss for the year	-	(47,923)	(47,923)
At December 31, 2006	1,116,727	139,975	1,256,702

The Company's reserves available for distribution to shareholders as at December 31, 2006 represent its retained profits of HK$139,975,000 (2005: HK$187,898,000).

34. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of land and buildings	**10,247**	6,835

34. OPERATING LEASE COMMITMENTS – continued

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

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**9,249**	8,400	**2,077**	770
In the second to fifth year inclusive	**4,307**	10,264	**863**	-
Over five years	**231**	339	**-**	-
	13,787	19,003	**2,940**	770

Operating lease payments represent rentals payable by the Group for certain of its office and factory properties. Leases are negotiated and rentals are fixed for an average term of two years.

35. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2006	2005
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
- property, plant and equipment	**77,489**	7,867
- intangible assets	**6,817**	3,568
	84,306	11,435
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**3,016**	40,450

36. MAJOR NON-CASH TRANSACTION

During the year, HK$3,232,000 of sales proceeds from disposal of property, plant and equipment was agreed by both parties to set off with trade payables for the same amount.

37. CONTINGENT LIABILITIES

(i) As disclosed in the press announcement of the Company dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in The United States of America (the "United States"). These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the antitrust complaints in the United States. Up to the date of this report, three antitrust complaints have been served on the Company and the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

(ii) At December 31, 2006, a guarantee of HK$20,000,000 (2005: Nil) was given by the Company to a bank in respect of banking facilities utilised by its subsidiary.

38. PLEDGE OF ASSETS

At December 31, 2006, no bills receivable of the Group (2005: bills receivable of HK$3,828,000) was pledged to a bank to secure banking facilities granted to a subsidiary of the Company. The pledge at December 31, 2005 was released upon the repayment of the loan facilities in January 2006. Details of the other pledge of assets are set out in note 20.

39. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK$43,104,000 (2005: HK$41,222,000).

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at December 31, 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital registered capital held by the Company Directly %	Indirectly %	Principal activity
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	100	-	Inactive
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd	PRC	Limited liability cooperative joint venture enterprise	RMB463,490,300	99.21	-	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB120,000,000	100	-	Manufacture and sales of pharmaceutical products
Shijiazhuaug Pharma Group Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	HK$130,000,000	100	-	Manufacture and sales of pharmaceutical products
Shijiazhuaug Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB135,000,000	100	-	Manufacture and sales of pharmaceutical products
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	100	-	Investment holding
Shijiazhuang Pharma Group Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	US$20,169,000	100	-	Manufacture and sale of pharmaceutical products
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB59,400,000	100	-	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB216,000,000	100	-	Manufacture and sale of pharmaceutical products

40. PARTICULARS OF SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital registered capital held by the Company		Principal activity
Shijiazhuang Pharma Group Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,440,000	100	-	Provision of pharmaceutical research and development services
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB50,000,000	100	-	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Hebei Zhongrun Huanbao Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB5,000,000	-	85	Sewage treatment
Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,000,000	80.42	-	Sewage treatment

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

RESULTS

	Year ended December 31,				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	1,625,130	2,478,426	2,450,649	3,192,065	**3,538,754**
Cost of sales	(1,121,850)	(1,553,466)	(1,819,804)	(2,498,501)	**(2,925,429)**
Gross profit	503,280	924,960	630,845	693,564	**613,325**
Other income	14,197	9,522	14,677	21,157	**34,814**
Distribution costs	(42,545)	(94,529)	(131,453)	(182,723)	**(232,511)**
Administrative expenses	(123,295)	(200,193)	(230,004)	(293,231)	**(308,094)**
Other expenses	(10,879)	(21,471)	(10,948)	(20,537)	**(6,808)**
Major overhaul expenses	(28,591)	-	-	-	**-**
Allowance for doubtful debts	(14,276)	-	-	-	**-**
Share of results of a jointly controlled entity	6,938	6,548	3,419	(1,099)	**(3,350)**
Finance costs	(26,682)	(25,361)	(27,959)	(68,139)	**(95,776)**
Profit before tax	278,147	599,476	248,577	148,992	**1,600**
Income tax	(48,572)	(93,916)	(3,185)	7,301	**13,763**
Profit for the year	229,575	505,560	245,392	156,293	**15,363**
Attributable to:					
Equity holders of the Company	228,142	504,169	245,011	156,518	**15,664**
Minority interests	1,433	1,391	381	(225)	**(301)**
	229,575	505,560	245,392	156,293	**15,363**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings per share					
Basic	16.62	33.27	15.93	10.18	**1.02**
Diluted	16.35	32.83	N/A	N/A	**N/A**

ASSETS AND LIABILITIES

	At December 31,				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	2,948,797	3,361,624	4,707,246	5,379,779	**5,273,408**
Total liabilities	(1,145,851)	(1,231,655)	(2,438,149)	(2,884,251)	**(2,622,574)**
	1,802,946	2,129,969	2,269,097	2,495,528	**2,650,834**
Equity attributable to equity holders of the Company	1,793,137	2,121,697	2,259,039	2,484,832	**2,641,641**
Minority interests	9,809	8,272	10,058	10,696	**9,193**
	1,802,946	2,129,969	2,269,097	2,495,528	**2,650,834**