東北虎藥業股份有限公司
NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China)

Annual Report 2006

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This report, for which the directors ("Directors") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Content

Corporate Information

EXECUTIVE DIRECTORS
Xu Zhe *(Chairman)*
Du Li Hua *(Deputy Chairman)*
Xu Dao Tian
(Deputy Chairman & General Manager)
Leng Zhan Ren

INDEPENDENT NON-EXECUTIVE DIRECTORS
Liu Jin
Niu Shu Min
Zhao Zhen Xing

SUPERVISORS
Zhang Ya Bin
Chen Lin Bo
Yin Hong

QUALIFIED ACCOUNTANT
Ng Chen Huei

COMPANY SECRETARY
Ng Chen Huei

AUDIT COMMITTEE
Liu Jin
Niu Shu Min
Zhao Zhen Xing

COMPLIANCE OFFICER
Du Li Hua

AUTHORIZED REPRESENTATIVES
Xu Dao Tian
Leng Zhan Ren

GEM STOCK CODE
8197

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE
Leng Zhan Ren

AUDITORS
Patrick Ng & Company

LEGAL ADVISORS
Li & Partners

PRINCIPAL BANKER
China Construction Bank
Jilin Railway Branch

HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE
No. 3, No. 2 Road,
Jilin Hi-Tech Development Zone
Jilin City
Jilin Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 2201-03, 22/F
World Wide House
19 Des Voeux Road Central
Central, Hong Kong

Chairman's Statement

On behalf of Board of Directors (the "Board") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), I hereby present to our shareholders the annual report of the Company for the year ended 31 December 2006.

The Company was established in Jilin High-Technology Development Zone, the People's Republic of China ("PRC"). It is principally engaged in the manufacture and sale of Chinese medicines under the brand name of "Northeast Tiger" in the PRC as well as conducting pharmaceutical research and development.

During the year under review, the business environment of medical industry has changed dramatically, intensive reform was introduced. A series of policies were implemented, such as medicines classification system, regulation on medical names by prohibition of multiple naming of medicines and prescription system with non-proprietary names to rectify misbehaviors in the medical market. Although the Company does not involve in illegal activities and the Company will benefit from more regulated marketing environment in the long run, its business has been inevitably affected by the disincentive mood pervading the market. Also, the implementation of regulatory price cut put another burden on the declining gross profit of the Company. Furthermore, market competition was intensified with major foreign enterprises attempting to tap into the promising PRC pharmaceutical market. Together with the increase in prices of raw materials, water and electricity, coal and transportation charges, the development of pharmaceutical industry faced with unprecedented challenges.

MARKETING

Patients of hospitals and clinics used to be the end users of our products. Development of non-prescriptive medicines and health-care products will remain as the major direction for the Company to realign the product mix. Today, sales network of the Company has been extended to drug stores and supermarkets. Many of our products, especially healthcare products or healthy food with general therapeutic effect, are good for both patients and non-patients.

The Company will keep monitoring trends in the pharmaceutical market to make timely adjustments on sales strategies for the launch of new products to reposition its products and actively seeking breakthrough in the sales of new products.

Chairman's Statement

PRODUCTION FACILITIES

In 2004, large volume injection of the Company has successfully passed Good Manufacturing Practice ("GMP") standard autoptic certification. By that time, the Company has six types of production line which including large volume injection, small volume injection, granules, tablets, capsules and liquid pills. The diversified production lines enabled the Company to respond readily to the market demand and pave the way for future development.

The management believes that the product quality is one of the Company's most competitive edges. During the period under review, the Company also improved day-to-day GMP management. In view of China's cGMP implementation and in an attempt to step up training of key management staff, the Company further regulated and improved the GMP examination and rectification process based on cGMP standards.

PROSPECTS

As the pharmaceutical market in the PRC becoming more regulated in recent years, the amount of counterfeit products are lowered and the promotional activities are conducted in more disciplinary manners. As an ethical manufacturer, we gradually recovered from the exceptionally low gross profit from sales discounts and price competition as a result of overwhelming counterfeit products and inferior goods last year.

Development in rural markets is one of the Company's major future strategies. China is determined to expedite its development of community healthcare services by establishing a new type of rural cooperative health care system in pilot areas. This will likely shore up the continuous growth of demand in domestic medicine market. In those pilot rural areas, farmers only need to pay RMB10 per person per year to participate in the "New Farming Village Cooperative Medical Scheme", to enjoy basic health care services. In March this year, the state council passed in principle "the Program for Establishing and Developing a Rural Health Care Service System" (《農村衛生服務體系建設與發展規劃》) and set a target that every farmer will be able to enjoy basic health care services by 2010. From 2006 onward, subsidies paid by the central and local governments to the "New Farming Village Cooperative Medical Scheme" have been increased to RMB40 per person per year. The scope of pilot areas will also expand to cover 40% of the country and further enhance to 60% by 2007. By 2008, pilot areas will be established to cover the whole nation. The goal is to establish "the New Farming Village Cooperative Medical Scheme" in almost all rural areas by 2010. "The New Farming Village Cooperative Medical Scheme" will become another robust growth point in medicine market.

Chairman's Statement

Looking forward, the Directors is confident of future development. The Company will continue to actively carry out product R&D, enhance production quality management and explore new business opportunities. Internal audit will be strengthened with stringent control over various expenses to manage relevant risk. Meanwhile, the Company will implement marketing and channel penetration strategies with a view to consolidating and reinforcing its good position in the market.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
23 March 2007

Management Discussion and Analysis

For the year ended 31 December 2006, turnover of the Company decreased by approximately 22% to approximately RMB39,686,000 and overall gross profit margin decreased by approximately 19.4% from approximately 32.9% to approximately 13.5%. Loss attributable to shareholders amounted to 23,573,000 (2005: loss 24,237,000).

As reasons stated above by the chairman, turnover period of the account receivables has increased accordingly. Our main customers are concentrated in Northern China, and many competitors are giving their old customers especially long credit period. Based on our historic experience record and after relevant due diligence investigation, in order to maintain customers for future development, we follow the practice of the industry. However, the auditor of Company believed that we must make full provision for doubtful receivables for 2006 which amounted to RMB15,244,000 for those account receivables overdue for more than 1 year. Apart from the reasons stated above, dramatically increased provision for doubtful receivables is another key fact that causing loss for the period under review.

Due to tight internal cost control, general, administrative and operating expenses on sales decreased by approximately 9% from approximately 33% to approximately 24%, after deducting provision for doubtful receivables of RMB15,244,000 in 2006 and RMB3,868,000 in 2005. However, up to now, the Company's operations are as normal as usual.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2006, the Company had total assets of approximately RMB137,035,000 which were financed by current liabilities of approximately RMB61,999,000, shareholders' equity of approximately RMB75,036,000.

The Company generally services its debts primarily through cash generated from its operations. As at 31 December 2006, the Company had cash and bank balances of approximately RMB16,678,000 and short-term bank loans of RMB34,020,000 including unsecured interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company. Taking into consideration the Company's current financial resources, the Directors believe that the Company shall have adequate fund for its continual operation and development, but would not exclude the possibility of raising working capitals once required by way of additional bank loans or equity financing in future.

As at 31 December 2006, the liquidity ratio, represented by a ratio between current assets over current liabilities, was 0.86:1. The Director believed that unsecured interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company is not subject to immediately demand for repayment and the major shareholders have committed to provide financial support to the company in writing, so the Company do not have liquidity problem. The gearing ratio of the Company, defined as a ratio between total debts and shareholders' equity, was 83%, is quite healthy.

TREASURY POLICIES

The Company adopts a conservative approach towards treasury policies. In selling its products, the Company may require new customers to make advance payment of approximately 45% of their purchases. The general credit terms in relation to the accounts receivable of the Company range from 90 to 120 days. In certain circumstance, the credit period may be extended to appropriate level after relevant due diligence investigation. In determining the length of the credit term extended to any specific customer, the Company will consider the reputation of the customer, the length of business relationship with the customer and its past payment record. The Company's management also puts endeavors on credit control on its customers by closely monitoring the outstanding balance owed by them. The actions taken by the Company include conducting monthly reviews on accounts receivable, following up each debtor overdue more than 120 days and enforcing the collection of outstanding balance of accounts receivable. The Company strives to reduce exposure to credit risk by performing ongoing credit evaluations of financial condition of its customers.

To manage liquidity risk, management closely monitors the liquidity position to ensure that the liquidity restructure of the Company can meet its funding requirements.

EMPLOYEE INFORMATION

Remuneration of the Company's employees was determined by reference to the performance, qualification and experience of the relevant staff. Based on operating result, a discretionary incentive bonus based on individual performance maybe distributes to reward their contributions to the Company. The management is of the opinion that employees are the most treasured assets of the Company. Accordingly, the Company has actively created a corporate environment to nurture them to their full potentials. Payroll costs of the Company remained at a similar level as before during the year. Other employee benefits include retirement benefits, medical insurance and housing fund contributions, remained at appropriate levels. Various training and development courses were also offered to enable employees to upgrade their skills.

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Xu Zhe, aged 37, is the chairman of the Company. Mr. Xu is responsible for the formulation and implementation of overall policy and strategy of the Company, as well as overseeing business development and sales and marketing activities of the Company. Mr. Xu was named twice as the "Excellent Sales Manager of the City of Jilin", "Excellent Citizen of the City of Jilin" and "Model Worker of the City of Jilin". He was a director of FE Holdings from 11 January 1999 to 10 April 2001. Mr. Xu also serves as a director of Hailaer City Yidaitianqiao Pharmaceutical Company Limited ("Hailaer") and Yakeshi Northeast Tiger Pharmaceutical Company Limited ("Yakeshi") respectively since 1998. Mr. Xu graduated from Jilin College of Fine Arts in the PRC. He went to the United States in 1996 to study business administration and he returned to the PRC in 1998 and founded NT Research. With the focus on the research and development of advanced and new technologies, Mr. Xu has developed the Company into a leading player in its field with substantial competitive edge. Mr. Xu is the son of Mr. Xu Dao Tian and Ms. Du Li Hua.

Du Li Hua, aged 56, is the deputy chairman of the Company. Ms. Du graduated from Yanbian University majoring in economics and has been engaged in the pharmaceutical business since 1989. Ms. Du was once recognised as an "Young/Mid-aged Expert with Outstanding Contribution", was granted "Special Sponsorship" by the State Council, awarded a "May 1 Labour Medal of the Country" by the National Trade Union, and recognised as the "Outstanding Business Manager of the Country". In addition, she was also recognised as the "Outstanding Woman Entrepreneur of the Country", "Model Worker of the Province of Jilin", "Outstanding Woman of Jilin", "Great Woman Red Flag Pioneer of the Province", "Outstanding Entrepreneur in the Pharmaceutical Industry under the Eighth Five-year Plan" and "Premier Model Worker of the City of Jilin". Ms. Du has also been a director of FE Holdings since 1992 and a director of Hailaer and Yakeshi respectively since 1998. She spent most of her time in FE Holdings and does not take active managerial role in the Company. She normally attends directors' meetings and supervisors' meeting of the Company. Ms. Du is the wife of Mr. Xu Dao Tian and is the mother of Mr. Xu Zhe.

Xu Dao Tian, aged 59, is the deputy chairman and general manager of the Company. Mr. Xu is responsible for the Company's overall operational activities, production management and product research and development. Mr. Xu graduated from Jilin Teachers College majoring in Chemistry and is a senior economist. He successively won the titles of, among others, "Outstanding Sales Manager of the City of Jilin" and "Advanced Developer of the Production Systems for the City's Pharmaceutical Industry". He was also awarded first honour in the "Business Starter of the Year" contest in 1999 held by Jilin Municipal Chamber of Industry. Mr. Xu has substantial experience in production management and product development. He was a director of FE Holdings from 11 January 1999 to 10 April 2001. Mr. Xu has also been a supervisor of FE Water since October 1996, an executive director of You Lian since April 1999 and a director of Hailaer since April 1998. Mr. Xu is the husband of Ms. Du Li Hua and is the father of Mr. Xu Zhe.

Leng Zhan Ren, aged 43, is a Director and financial manager of the Company. Mr. Leng is responsible for the overall financial planning of the Company. Mr. Leng has also served as a supervisor of Hailaer and Yakeshi respectively since 1998. He graduated from Jilin College of Finance and Trade, majoring in accounting, and is a qualified accountant in the PRC. Mr. Leng has written a financial software "Accounting and Financial Statement System" which has been recognised by the provincial authority in Jilin and was launched in the market as a commercial software in 1999. The software has been awarded a second-class award by the Electronic Industry Department and a first-class award by the provincial authority.

Independent non-executive Directors

Liu Jin, aged 37, was appointed an independent non-executive director of the Company on 11 July 2001. She has obtained a bachelor degree of economics from Zhongnan University of Finance and Economics and has been a director of the China Division of ICEA Securities Limited since May 2001.

Niu Shu Min, aged 67, was appointed an independent non-executive director of the Company on 11 July 2001. After graduating from the chemistry faculty of Shenyang Medical Institute, she has worked as the deputy manager of Jilin Pharmaceutical Company, and the deputy director and thereafter director of the JDA until she retired in June 1999. She has over 4 years of experience in financing. Currently she is the vice president and general secretary of the Association of Pharmaceutical Quality Control of the PRC and a standing committee member of Jilin People's Political Consultative Conference.

Zhao Zhen Xing, aged 64, was appointed an independent non-executive director of the Company on 30 September 2004. He graduated from College of Jilin provincial Finance and banking. He became a registered Auditor of PRC in 1994, and in July 1997 he was recognized as a senior accountant of PRC. He was manager of internal audit department of Jilin Tansu Group, Jilin Tansu Company Limited during 1991 to 2001. He served as Supervisor of Jilin Tansu Group, Jilin Tansu Company Limited during 1997 to 2001.

SUPERVISORS

Zhang Ya Bin, aged 44, is the chairman of the supervisory committee of the Company. Mr. Zhang joined the Company on 28 June 2000. He does not take any active role in the Company. He graduated from Northeast Normal University majoring in political studies and is currently a director of FE Holdings, Hailaer and Yakeshi respectively. Mr. Zhang was the assistant to the chairman of FE Holdings and a deputy secretary of the communist party committee of that company.

Chen Lin Bo, aged 51, is a supervisor of the Company who joined the Company on 28 June 2000. He is responsible for infrastructure project of the Company. He graduated from Changchun Traditional Chinese Medical College, majoring in medical studies. He had been the deputy manager of NT Drugs for years. He was also in charge of the infrastructure project of NT Pharmaceutical.

Yin Hong, aged 37, is a supervisor of the Company who joined the Company on 28 June 2000. He graduated from Changchun College of Taxation Studies majoring in accounting and is an accountant. Ms. Yin has served as the deputy financial controller of FE Holdings since 1992.

SENIOR MANAGEMENT

Gao Yue Ying, aged 36, is the secretary of the board of directors of the Company and the supervisor of the general manager's office. Ms. Gao graduated from Jilin College of Finance and Trade and is an assistant accountant.

Ng Chen Huei, aged 43, is the qualified accountant with a bachelor's degree and company secretary of the Company. Mr. Ng is a fellow member of the Association of Chartered Certified Accountants. Mr. Ng has over ten years extensive experience in accounting and financial management.

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee ("we") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2006 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Zhang Ya Bin
Chairman

Jilin, the PRC
23 March 2007

INTRODUCTION

Subject to the deviation as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedure to protect and maximize the interests of shareholders during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2006.

BOARD OF DIRECTORS AND BOARD MEETING

The Board currently consists of 4 executive Directors and 3 independent non-executive Directors.

Executive Directors:

Mr. Xu Zhe *(Chairman)*
Mr. Xu Dao Tian *(Chief Executive Officer)*
Ms. Du Li Hua
Ms. Leng Zhan Ren

Independent non-executive Directors:

Miss Liu Jin
Miss Niu Shu Min
Miss Zhao Zhen Xing

The board of Directors is responsible for the Company's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 8 to 10 of this Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each Executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Except that Mr. Xu Zhe, Xu Dao Tian and Madam Du Li Hua are members of a family, there is no relationship among the members of the board of Directors.

The Company appointed three Independent Non-Executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Miss. Liu Jin, Miss Niu Shu Min and Ms. Zhao Zhen Xing are the Independent Non-Executive Directors. Miss. Liu Jin and Miss Niu Shu Min Li have been appointed for a term of three years commencing on 20 May 2005. Mr. Zhao Zhen Xing has been appointed for a term of three years commencing on 30 September 2004. All of them are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

Under the code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xu Zhe, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the code provision A.4.2, Mr. Xu Dao Tian, Madam Du Li Hua, Mr. Leng Zhan Ren, Miss Liu Jin and Miss Niu Shu Min, having served their directorship for over three years will retire at the forthcoming annual general meeting of the Company, and being eligible, will offer themself for re-election.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmations from each Independent Non-Executive Director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the Independent Non-Executive Directors to be independent.

During the year under review, Mr. Xu Zhe was the chairman and Mr. Xu Dao Tian was the chief executive officer.

The roles of the chairman and chief executive officer are segregated and are not exercised by the same individual during the year under review, the chairman's responsibility is to manage the Board while the chief executive officer's is to manage the business of the Company.

The Board of Directors held a full board meeting for each quarter.

Details of the attendance of the meetings of the board of Directors are as follows:

Directors Attendance

Mr. Xu Zhe	4/4
Mr. Xu Dao Tian	4/4
Madam Du Li Hua	4/4
Mr. Leng Zhan Ren	4/4
Ms. Liu Jin	4/4
Ms. Niu Shu Min	4/4
Mr. Zhao Zhen Xing	4/4

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each board meeting.

REMUNERATION COMMITTEE

The remuneration committee was established in August 2005. The chairman of the committee is Miss. Liu Jin, a non-executive Director, and other members are Miss Niu Shu Min and Mr. Zhao Zhen Xin, both of them are independent non-executive Directors, thus the all being independent non-executive Directors.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until August, 2005 that the Company established a remuneration committee as required under the code provision B.1.1.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held in November 2006. Details of the attendance of the meeting of the remuneration committee meeting are as follows:

Members	**Attendance**
Ms. Liu Jin	1/1
Ms. Niu Shu Min	1/1
Mr. Zhao Zhen Xing	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company during the year.

The Board of directors considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year.

During the period, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association (subject to the proposed amendments at the forthcoming annual general meeting), except Mr. Xu Zhe, those who have served the Company for more than three year will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xu Zhe, being the chairman of the Company, is not subject to retirement by rotation.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Company and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to Directors. The audit committee comprises three members, Miss Liu Jin, Miss Niu Shu Min and Mr. Zhao Zhen Xing. All of them are independent non-executive Directors. The chairman of the audit committee is Miss Liu Jin.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Ms. Liu Jin	4/4
Ms. Niu Shu Min	4/4
Mr. Zhao Zhen Xing	4/4

The Company's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2006 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The audited consolidated results of the Company for the year have been reviewed by the audit committee.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors knowledge their responsibilities for the preparation of the financial statements of the Company and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Company. The statements of the external auditors of the Company, Patrick Ng & Company, about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 29 to 30 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

AUDITORS

During the year under review, the performance of the external auditors of the Company has been reviewed and it is proposed to reappoint external auditors.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquires from shareholders timely; (iv) updated and key information of the Group available on website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavour to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting ("AGM") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") will be held at No.3,No.2 Road, Jilin Hi-Tech Development Zone, Jilin City, Jilin Province, the PRC on 15 May 2007 at 9:00 a.m. for the following purposes:–

To consider and, if thought fit, pass the following matters as ordinary resolutions:

1. To receive and consider the audited financial statements of the Company and the Report of the Directors and the Auditors respectively for the year ended 31 December 2006;

2. To appoint auditors and to authorize the board of directors of the Company to fix their remuneration;

3. To empower the executive directors of the Company to exercise the authority for the determination of incentive bonus to the relevant person of the Company as a motivation for the contribution of efforts to the development of the Company, if any.

4. To consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2006;

5. To consider and if the right fit, pass with or without modifications, the following resolution as a special resolution:

   "**THAT**:

   (a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company (the "Board") during the Relevant Period (as defined in paragraph (f) below) of all the powers of the Company separately or concurrently to allot, issue and deal with domestic shares of nominal value of RMB0.10 each in the share capital of the Company (the "Domestic Shares") and/or overseas-listed foreign shares of nominal value of RMB0.10 each in the share capital of the Company (the "H Shares") be and is hereby approved;

   (b) the approval in paragraph (a) above shall authorise the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares to be allotted and issued either during or after the end of the Relevant Period;

   (c) the aggregate nominal value of Domestic Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;

(d) the aggregate nominal value of H Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal value of the H Shares then in issue at the date of the passing of this resolution;

(e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory Commission being obtained by the Company;

(f) for the purpose of this special resolution: Relevant Period" means the period from the passing of this special resolution until whichever is the earlier of:

    (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;

    (ii) the expiration of a period of 12 months following the passing of this special resolution; or

    (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

"Rights issue" means an offer of shares open for a period fixed by the Directors to holders of shares of the Company on the register of members of the Company on a fixed record date and, where appropriate, the holders of the other equity securities of the Company entitled to be offered therein, in proportion to their then holdings of such shares or other equity securities (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any regulatory body or any stock exchange); and

(g) the Board be and is hereby authorised to make such amendments to the articles of association of the Company as it thinks fit so as to increase the registered share capital and to reflect the new capital structure of the Company as a result of the allotment and issue of shares of the Company pursuant to the approval granted under paragraph (a) above"; and

6. To transact any other business, if any.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
23 March 2007

Notes:

1. Any shareholder entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.

2. In order to be valid, the proxy form of holder of H shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's registered office not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

3. Shareholders or their proxies shall produce their identity documents when attending the meeting.

4. The H share register of shareholders of the Company will be closed from 16 April 2007 to 15 May 2007 (both days inclusive), during which no transfer of shares will be registered. In order to ascertain the entitlement to attend at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar not later than 4:00 p.m. on 13 April 2007, for registration.

5. Shareholders who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it to the Company's registered office not later than 24 April 2007.

Report of the Directors

The Directors are pleased to present their report together with the audited financial statements of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") for the year ended 31 December 2006.

COMPANY ORGANISATION

The Company was incorporated in the People's Republic of China (the "PRC") on 20 November 1998 as a privately owned company with limited liability. On 30 June 2000, the Company was converted into a joint stock company with limited liability in the PRC.

The Company's H shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 February 2002.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sale of Chinese medicine products in the PRC as well as conducting pharmaceutical research and development.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Company's major suppliers and customers are as follows:

Purchases	
– the largest supplier	16%
– five largest suppliers combined	35%
Sales	
– the largest customer	16%
– five largest customers combined	31%

None of the Directors, Supervisors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the income statement on page 31.

The Directors do not recommend the payment of a dividend.

RESERVES

Movement of the reserves of the Company during the year is set out in Note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of property, plant and equipment of the Company are set out in Note 17 to the financial statements.

FOREIGN EXCHANGE RISK

Since all of the income and most of expenses of the Company are denominated in Renminbi, as at 31 December 2006 the Directors consider the impact on foreign exchange exposure of the Company is minimal.

CONTINGENT LIABILITIES

Up to the date of this report, the Company did not have any material contingent liabilities.

SIGNIFICANT INVESTMENT

During the year, the Company did not have any significant investment which is required to be disclosed.

MERGERS AND ACQUISITIONS

During the year, the Company has not engaged in any mergers and acquisitions which are required to be disclosed.

DISPOSAL OF MAJOR ASSETS AND INVESTMENTS

During the year, the Company has not disposed of any major assets and investments.

SHARE CAPITAL

Details of movement of share capital of the Company are set out in Note 25 to the financial statements.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Xu Zhe *(Chairman)*
Xu Dao Tian *(Deputy-Chairman)*
Du Li Hua *(Deputy-Chairman)*
Leng Zhan Ren

Independent Non-executive Directors

Liu Jin
Niu Shu Min
Zhao Zhen Xing

In accordance with the Articles of Association of the Company, all Directors will retire every three years and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' AND SUPERVISORS'SERVICE CONTRACTS

None of the Directors and Supervisors has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

RETIREMENTS SCHEME, PERSONNEL AND PAYROLL

Particulars of the retirement scheme of the Company are set out in Note 12(a) to the accompanying financial statements.

CHARGES ON ASSETS

As at 31 December 2006, land use rights and buildings with net book value of approximately RMB16,927,000 (2005: 17,736,000) were pledged as security for the Company's short-term bank loans.

BANK BORROWINGS

Particulars of bank borrowings of the Company as at 31 December 2006 are set out in Note 21 to the accompanying financial statements.

CONNECTED PARTY TRANSACTIONS

The related party transactions disclosed in Note 27 to the accompanying financial statements constitute the connected transactions under Chapter 20 of the GEM Listing Rules.

The Non-Executive Directors of the Company had reviewed the connected transactions of the year ended 31 December 2006 and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable than those available to or from independent third parties; and

(ii) in accordance with the relevant agreements governing the transactions; and

(iii) on terms that are fair and reasonable and in interests of the shareholders of the Company as a whole.

(iv) the aggregate amount of each of these transactions has not exceeded the cap amount as agreed with the Stock Exchange in this regard.

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

As at 31 December, 2006, the interests and short positions of the Directors and supervisors of the Company ("Supervisor") in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange, were as follows:

- **Long positions in Shares**

Name of Directors or Supervisors	Number of Domestic Shares personally interested	Approximate percentage of Shareholding (%)
Xu Zhe	183,482,440	24.57
Xu Dao Tian	150,644,480	20.17
Zhang Ya Bin	1,618,960	0.21
Leng Zhan Ren	1,349,140	0.17
	337,095,020	45.12

Save as disclosed above, none of the Directors, Supervisors and the chairman or their respective associates had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December, 2006, the Company was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor, as at 31 December, 2006, the persons or companies (not being a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follow:

- **Long positions in Shares**

Name	Number of domestic shares held	Approximate percentage of shareholding (%)
Liu Yang	194,194,580	26.01

Save as disclosed above, as at 31 December, 2006, the Directors were not aware of any other person who had an interest or short position in the Shares of the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the Directors and Supervisors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in any business that competes or may compete with the business of the Company.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee. In compliance with Rule 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Company. The audit committee comprises Ms. Liu Jin, Ms. Niu Shu Min and Mr. Zhao Zhen Xing, all of who are independent non-executive Directors.

The audit committee had conducted a meeting and reviewed the Company's unaudited results for the period ended 31 December, 2006 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

PRACTICES AND PROCEDURES OF THE BOARD

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices throughout the accounting period covered by this Report.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those required for securities transactions by directors. The Company has confirmed after making due enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities transaction by directors.

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

Since the H shares of the Company commenced trading on GEM on 28 February, 2002, the Company has not purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF H SHARE REGISTER

The H share register of shareholders of the Company will be closed from 16 April 2007 to 15 May 2007 (both days inclusive).

AUDITORS

The financial statements have been audited by Patrick Ng & Company who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
23 March 2007

Independent Auditor's Report

TO THE SHAREHOLDERS OF
NORTHEAST TIGER PHARMACEUTICAL CO., LTD.
(A joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements of Northeast Tiger Pharmaceutical Co., Ltd. set out on pages 31 to 65, which comprise the balance sheet as at 31 December 2006, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

FUNDAMENTAL UNCERTAINTY

The financial statements have been prepared on a going concern basis, the validity of which is dependent upon continuous financial support being available. As set out in Note 2(b) to the financial statements, the major shareholders have agreed to provide such financial support to the company. We consider that adequate funds will be available for the company to meet its liabilities as they fall due and appropriate disclosures have been made; our opinion is not qualified in this respect.

OPINION

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

PATRICK NG & COMPANY
Certified Public Accountants

20/F., Hong Kong Trade Centre,
161-167 Des Voeux Road,
Central, Hong Kong,
Hong Kong S.A.R., China

23 March 2007

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Renminbi)

	Note	**2006 RMB'000**	2005 RMB'000
Turnover	6	**39,686**	50,914
Cost of sales		**(34,347)**	(34,157)
Gross profit		**5,339**	16,757
Other revenues	6	**–**	10
Other net income	6	**–**	1,950
Impairment losses on buildings	17	**–**	(2,514)
Impairment losses on intangible assets	15	**–**	(8,460)
Distribution and selling expenses		**(5,117)**	(9,341)
General, administrative and operating expenses		**(25,070)**	(20,836)
Loss from operations	7	**(24,848)**	(22,434)
Finance costs	8	**(1,596)**	(1,584)
Loss before income tax expense		**(26,444)**	(24,018)
Income tax expense	9	**2,871**	(219)
Loss attributable to shareholders	26	**(23,573)**	(24,237)
Dividends	11	**–**	–
Loss per share			
Basic	10	**(3.16) cents**	(3.25)cents
Diluted	10	**N/A**	N/A

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Balance Sheet

AS AT 31 DECEMBER 2006

(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Intangible assets	15	**32**	76
Land use rights	16	**12,762**	13,040
Property, plant and equipment	17	**70,642**	77,394
		83,436	90,510
Current assets			
Inventories	18	**11,235**	10,763
Trade and other receivables	19	**25,686**	44,617
Cash and bank balances	20	**16,678**	17,207
		53,599	72,587
Total assets		**137,035**	163,097
Less: Current liabilities			
Short-term borrowings	21	**34,020**	34,520
Trade and other payables	22	**27,979**	27,097
Income tax payable	23	**–**	54
Deferred tax liabilities	24	**–**	2,817
		61,999	64,488
Net current (liabilities)/assets		**(8,400)**	8,099
Net assets		**75,036**	98,609
Capital and reserves attributable to the Company's equity holders			
Share capital	25	**74,665**	74,665
Reserves	26	**371**	23,944
Total equity		**75,036**	98,609

The financial statements were approved by the Board of Directors on 23 March 2007 and signed on behalf of the Board by:

Xu Zhe
Director

Leng Zhan Ren
Director

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Renminbi)

	Share capital RMB'000	Capital reserve: Share premium RMB'000	Capital reserve: Revaluation reserve RMB'000	Capital reserve: Others RMB'000	Statutory public welfare fund RMB'000	Statutory revenue reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
As at 1 January 2005	74,665	19,027	1,572	11,326	3,928	5,757	8,143	124,418
Loss for the year	–	–	–	–	–	–	(24,237)	(24,237)
Reversal of revaluation on buildings	–	–	(1,572)	–	–	–	–	(1,572)
As at 31 December 2005 and 1 January 2006	74,665	19,027	–	11,326	3,928	5,757	(16,094)	98,609
Loss for the year	–	–	–	–	–	–	(23,573)	(23,573)
As at 31 December 2006	74,665	19,027	–	11,326	3,928	5,757	(39,667)	75,036

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Renminbi)

	2006 RMB'000	2005 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax expense	**(26,444)**	(24,018)
Impairment losses on buildings	**–**	2,514
Impairment losses on intangible assets	**–**	8,460
Amortisation of intangible assets	**44**	1,660
Depreciation of property, plant and equipment	**6,842**	6,853
Amortisation of land use right	**278**	278
Gain on disposal of property, plant and equipment	**–**	(1,950)
Provision for impairment of receivables	**15,244**	3,868
Provision for impairment of advances to staff	**(1,027)**	2,129
Provision for impairment of inventories, net	**–**	(208)
Interest expenses	**1,580**	1,569
Interest income	**–**	(9)
Operating (loss)/profit before movements in working capital	**(3,483)**	1,146
Changes in working capital		
Increase in inventories	**(472)**	(3,383)
Decrease/(increase) in trade and other receivables	**4,714**	(1,267)
Increase in trade and other payables	**882**	363
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**1,641**	(3,141)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**–**	9
Proceeds from sale of property, plant and equipment	**–**	17,679
Purchase of property, plant and equipment	**(90)**	(1,740)
Addition of intangible assets	**–**	(18)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	**(90)**	15,930
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term borrowings	**(24,500)**	(24,500)
Proceeds from short-term borrowings	**24,000**	24,500
Interest paid	**(1,580)**	(1,569)
NET CASH USED IN FINANCING ACTIVITIES	**(2,080)**	(1,569)

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Renminbi)

	2006 **RMB'000**	2005 RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(529)**	11,220
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**17,207**	5,987
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**16,678**	17,207
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**16,678**	17,207

All of the Company's cash and bank balances are denominated in Renminbi which is not freely convertible to other currencies.

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC"). The address of its registered office is No. 3, No. 2 Road, Jilin Hi-Tech Development Zone, Jilin City, Jilin Province, PRC. Its principal activities are the development, manufacture and sale of medicines in the PRC. There were no significant changes in the nature of its principal activities during the year.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention except that the intangible assets, land use rights and buildings are stated at their fair value.

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (continued)

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Going concern

The Company incurred significant losses for each of the two years ended 31 December 2006. Nevertheless, the directors have adopted the going concern basis in the preparation of the financial statements on the grounds that major shareholders have agreed to provide continuing financial support for the company to meet its liabilities as they fall due.

The directors are of the view that the above measures will enable the Company to continue as a going concern and that the Company will have sufficient working capital for its present requirements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on the going concern basis.

(c) The adoption of new and revised HKFRSs

In the current year, the Company has applied a number of new and revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are relevant to its operations and either effective for accounting periods beginning on or after 1 January 2005 or 1 January 2006. The adoption of the new HKFRSs has no significant effect on the Company's accounting policies and amounts reported for the current and prior accounting periods in these financial statements.

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) The adoption of new and revised HKFRSs (continued)

HKAS 1 (Amendment)	Capital Disclosures [1]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC)-Int 8	Scope of HKFRS 2 [3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment [5]

(1) Effective for annual periods beginning on or after 1 January 2007
(2) Effective for annual periods beginning on or after 1 March 2006
(3) Effective for annual periods beginning on or after 1 May 2006
(4) Effective for annual periods beginning on or after 1 June 2006
(5) Effective for annual periods beginning on or after 1 November 2006

(d) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency"). The financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less subsequent depreciation and impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	:	25-35 years
Machinery	:	5-11 years
Motor vehicles	:	8 years
Office equipment and others	:	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected 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 income statement in the year in which the item is derecognised.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets

(i) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical and commercial feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(ii) Technical know-how

Costs on acquired technical know-how are recognised and amortised using the straight-line method over the estimated useful lives of between 5 to 10 years, from the date when the technical know-how is available for use.

Both the period and method of amortization are reviewed annually.

(g) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of tangible and intangible assets excluding goodwill (Continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until 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 in profit or loss in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iii) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company 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 Company after deducting all of its liabilities.

(iv) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs as stated in Note (2)(i)

(v) Trade and other payables

Trade and other payables are subsequently measured at amortised cost, using the effective interest rate method, unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenue is recognized as follows:

(i) Sales of goods are recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Subsidy income is recognised upon granting of subsidy by the relevant authorities.

(iii) Interest income from bank deposits is recognised on a time-apportioned basis that takes into account the effective yield on the assets.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Related party transactions

A party is related to the Company if:

a. directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with the Company;

(ii) has an interest in the Company that gives it significant influence over the Company; or

(iii) has joint control over the Company;

b. the party is a joint venture in which the entity is a venturer;

c. the party is an associate;

d. the party is a member of the key management personnel of the Company;

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

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

g. the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Provisions and contingent liabilities

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

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

(p) Leases

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

Assets held under finance leases are recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

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.

Interest in leasehold land is amortised over the lease term on a straight-line basis.

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and cash flow and fair value interest rate risk.

(i) Credit risk

The carrying amounts of trade receivables included in the balance sheet represent the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 in relation to its financial assets. No other financial assets carry a significant exposure to credit risk.

In order to minimize the credit risk, the management of the Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The management has also delegated personnel responsible 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 Company reviews the recoverable amount of each individual trade 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 Company's credit risk is significantly reduced.

The Company's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC") with exposure spread over a number of customers.

(ii) Liquidity risk

The Company will consistently implement a prudent liquidity risk management and ensure that it maintains sufficient cash and cash equivalents to meet its liquidity requirements. Banking facilities have also been arranged with different banks in order to fund the liquidity requirements. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

(iii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of change in market interest rates.

The Company's interest-rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Company to fair value interest-rate risk. At the year end, all borrowings were at fixed rates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

Estimated impairment of property, plant and equipment and intangible assets

The Company evaluates whether property, plant and equipment and intangible assets have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Estimated useful lives of property, plant and equipment and intangible assets

The Company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

5. SEGMENT INFORMATION

No business segment information (primary segment information) has been disclosed for the years presented as the Company is operating in a single business segment which is the development, manufacture and sale of medicine products in the PRC. Substantially all of the Company's revenues are granted in the PRC and all of the Company's assets are located in the PRC and therefore no geographical segment information has been disclosed for the year presented.

6. TURNOVER, OTHER REVENUES AND OTHER NET INCOME

	2006 **RMB'000**	2005 RMB'000
Turnover:		
Sales of medicines in the PRC	**39,686**	50,914
Other revenues:		
Interest income from bank deposits	**–**	9
Sundry income	**–**	1
	–	10
Total revenues	**39,686**	50,924
Other net income:		
Gain on disposal of property, plant and equipment	**–**	1,950

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers. All of the Company's sales made in the PRC are subject to value added tax ("VAT") at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Company on purchases ("input VAT").

7. LOSS FROM OPERATIONS

Loss from operations is stated after charging/(crediting):

	2006 **RMB'000**	2005 RMB'000
Cost of inventories sold	**34,347**	34,157
Staff costs excluding directors' emoluments		
– Staff salaries and wages	**2,332**	4,140
– Provision for staff and workers' bonus and welfare fund	**71**	757
– Contributions to defined contribution retirement scheme	**238**	947
Write-off of obsolete inventories	**–**	632
Provision for impairment of inventories, net	**–**	(208)
Provision for impairment of trade receivables	**15,244**	3,868
Provision for impairment of advances to staff	**(1,207)**	2,129
Amortisation of intangible assets	**44**	1,660
Amortisation of land use rights	**278**	278
Depreciation of property, plant and equipment	**6,842**	6,853
Operating lease charges in respect of rented premises	**–**	23
Research and development costs	**416**	632
Auditors' remuneration	**402**	424

8. FINANCE COSTS

	2006 **RMB'000**	2005 RMB'000
Interest on bank loans wholly repayable on demand	**1,580**	1,567
Interest on other borrowings	**–**	2
Bank charges	**16**	15
	1,596	1,584

9. INCOME TAX EXPENSES

The income tax expense represents:

	2006 RMB'000	2005 RMB'000
PRC enterprise income tax ("EIT")		
– Current tax provision for EIT	–	–
– Deferred tax provision for EIT arising from temporary difference of sales recognition	–	219
– EIT overprovision	(54)	–
– Deferred tax provision for EIT written back	(2,817)	–
	(2,871)	219

The Company was established in Jilin High-Technology Development Zone, the PRC. The applicable enterprise income tax rate was 15% for each of the years ended 31 December 2005 and 2006.

No Provision for EIT has been made as the company was operating at a loss during the year (2005: Nil)

The following is a reconciliation of expected income tax calculated at the applicable income tax rate of 15% on the loss before income tax expense with income tax expense:

	2006 RMB'000	2005 RMB'000
Loss before income tax expense	(26,444)	(24,018)
Expected income tax thereon at applicable income tax rate	(3,967)	(3,603)
Unrecognised tax losses	3,967	3,603
EIT arising from temporary difference of sales recognition	–	219
EIT overprovision	(54)	–
Deferred tax provision for EIT written back	(2,817)	–
Income tax expense for the year	(2,871)	219

10. LOSS PER SHARE

(a) The calculation of basic loss per share is based on the Company's loss attributable to shareholders of approximately RMB23,573,000 (2005: RMB24,237,000) and the weighted average number of 746,654,240 shares (2005: 746,654,240 shares) in issue during the year.

(b) No diluted loss per share is presented as there are no dilutive potential ordinary shares in issue for each of the years ended 31 December 2005 and 2006.

11. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: Nil).

12. EMPLOYEE BENEFITS

(a) Retirement scheme

The Company participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. Each employee covered by these schemes is entitled, after retirement from the Company, to a pension as of their retirement dates. The local government authorities are responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme at a rate of 24% (2005: 24%) based on the eligible employees' salaries.

The Company has arranged for its Hong Kong employees to join a mandatory provident fund scheme (the "MPF Scheme") in accordance with the Hong Kong Mandatory Provident Fund Schemes Ordinance, which is a defined contribution scheme managed by an independent trustee. Both the Company (the employer) and its employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions of employer and employees are subject to a cap of monthly earnings of HK$20,000 and thereafter contributions are voluntary. The assets of the fund are held separately from those of the Company and are managed by independent professional fund managers.

12. EMPLOYEE BENEFITS (CONTINUED)

(b) Housing fund

The Company has opened housing fund accounts for all its employees in January 2001. The housing fund scheme comprised of two parts, the Company and individual employees are required to contribute to the housing fund. The amount payable by each employee will be deducted from the employee's monthly salary by the Company. The ratio of housing fund to be deposited by individual employee and the Company is 5% of the average monthly salary of such employee for the previous year. Withdrawals from the fund are subject to qualifications and procedures specified under local regulations.

13. DIRECTORS' EMOLUMENTS

Details of directors' emoluments disclosed pursuant to the requirements of the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2006 **RMB'000**	2005 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and other benefits	**233**	214
Pension scheme contributions	**2**	51
Bonuses paid and payable	**–**	–
	235	265

13. DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of every director for the year ended 31 December 2006 are set out below:

	Fees	Salaries, allowances and other benefits	Pension scheme contributions	Bonuses paid and payable	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2006					
Executive directors:					
Xu Zhe	–	**233**	**2**	–	**235**
Du Li Hua	–	–	–	–	–
Xu Dao Tian	–	–	–	–	–
Leng Zhan Ren	–	–	–	–	–
Independent non-executive directors:					
Liu Jin	–	–	–	–	–
Niu Shu Min	–	–	–	–	–
Zhao Zhen Xing	–	–	–	–	–
	–	**233**	**2**	–	**235**

13. DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of every director for the year ended 31 December 2005 are set out below:

	Fees	Salaries, allowances and other benefits	Pension scheme contributions	Bonuses paid and payable	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2005					
Executive directors:					
Xu Zhe	–	190	46	–	236
Du Li Hua	–	–	–	–	–
Xu Dao Tian	–	11	2	–	13
Liu Xiao Hong (Resigned on 22 August 2005)	–	–	–	–	–
Leng Zhan Ren	–	13	3	–	16
Independent non-executive directors:					
Liu Jin	–	–	–	–	–
Niu Shu Min	–	–	–	–	–
Zhao Zhen Xing	–	–	–	–	–
	–	214	51	–	265

The three independent non-executive directors did not receive any emoluments for the year ended 31 December 2006 (2005: Nil). The emoluments of each of the directors were within the band of nil to RMB1,004,000 (equivalent to HK$1,000,000) for the years ended 31 December 2005 and 2006.

None of the directors waived or agreed to waive any emoluments during the year ended 31 December 2006 (2005: Nil). No emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2006 (2005: Nil).

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, one (2005: one) is director whose emoluments are disclosed in note (13). The aggregate of the emoluments in respect of the other four (2005: four) individuals are as follows:

	2006 **RMB'000**	2005 RMB'000
Basic salaries, housing benefits and other benefits	**234**	635
Pension scheme contributions	**3**	93
Bonuses paid and payable	**–**	–
	237	728

The emoluments of each of the five highest paid individuals, including directors, were within the band of nil to RMB1,004,000 (equivalent to HK$1,000,000).

No emoluments were paid by the Company to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2006 (2005: Nil).

15. INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
At cost:			
As at 1 January 2005	16,078	223	16,301
Additions	18	–	18
As at 31 December 2005 and 1 January 2006	16,096	223	16,319
Additions/disposals	–	–	–
As at 31 December 2006	16,096	223	16,319
Accumulated depreciation and impairment losses:			
As at 1 January 2005	6,021	102	6,123
Charge for the year	1,615	45	1,660
Impairment losses	8,460	–	8,460
As at 31 December 2005 and 1 January 2006	16,096	147	16,243
Charge for the year	–	44	44
As at 31 December 2006	16,096	191	16,287
Net carrying amount:			
As at 31 December 2006	–	32	32
As at 31 December 2005	–	76	76

16. LAND USE RIGHTS

The Company's interests in land use rights represented prepaid operating lease payments and their net carrying amount are analysed as follows:

	RMB'000
At Cost:	
As at 1 January 2005	13,906
Additions/disposals	–
As at 31 December 2005 and 1 January 2006	13,906
Additions/disposals	–
As at 31 December 2006	13,906
Accumulated amortisation:	
As at 1 January 2005	588
Amortisation for the year	278
As at 31 December 2005 and 1 January 2006	866
Amortisation for the year	278
As at 31 December 2006	1,144
Net carrying amount:	
As at 31 December 2006	12,762
As at 31 December 2005	13,040

Notes:

(a) As at 31 December 2006, land use rights with net carrying amount of approximately RMB934,000 (2005: RMB954,000) were pledged as security for the Company's short-term bank loans.

(b) The land use rights of the Company as at 31 December 2006 are held on medium term leases and situated in the PRC.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Motor vehicles	Office equipment and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At cost/valuation:					
As at 1 January 2005	88,749	20,776	2,534	8,847	120,906
Additions	311	1,183	–	246	1,740
Disposals	(17,679)	–	–	–	(17,679)
As at 31 December 2005 and 1 January 2006	71,381	21,959	2,534	9,093	104,967
Additions	–	43	–	47	90
As at 31 December 2006	71,381	22,002	2,534	9,140	105,057
Accumulated depreciation and impairment losses					
As at 1 January 2005	8,299	5,743	1,072	3,470	18,584
Disposal written back	(1,950)	–	–	–	(1,950)
Charge for the year	2,736	2,121	317	1,679	6,853
Impairment losses (Note (b))	4,086	–	–	–	4,086
As at 31 December 2005 and 1 January 2006	13,171	7,864	1,389	5,149	27,573
Charge for the year	2,736	2,125	296	1,685	6,842
As at 31 December 2006	15,907	9,989	1,685	6,834	34,415
Net carrying amount:					
As at 31 December 2006	55,474	12,013	849	2,306	70,642
As at 31 December 2005	58,210	14,095	1,145	3,944	77,394

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) The Company's buildings were appraised on 31 December 2001 by an independent professional valuer, Sallmanns (Far East) Limited, who have among their staff members of the Hong Kong Institute of Surveyors. These properties were appraised on the basis of depreciated replacement cost and were carried in the balance sheet at fair market value. As a result of the appraisal, an increase in net book value of the Company's buildings of approximately RMB1,572,000 as at 31 December 2001 was credited to the revaluation reserve (which is a component of the Company's capital reserve, further details of which are set out in Note (26) to the financial statements).

(b) As at 31 December 2005, the Company's buildings were appraised by an independent Hong Kong professional valuer, RHL Appraisal Limited. These properties were appraised on the basis of depreciated replacement cost and were carried in the balance sheet at fair market value of approximately RMB58,210,000 as at 31 December 2005. The impairment loss of approximately RMB4,086,000 arising from the revaluation, approximately RMB1,572,000 was debited to the revaluation reserve and approximately RMB2,514,000 was charged to the income statement.

(c) As at 31 December 2006, the Company's buildings were appraised by an independent Hong Kong professional valuer, Asset Appraisal Limited. These properties were appraised on the basis of depreciated replacement cost with fair market value of approximately RMB56,860,000 as at 31 December 2006.

(d) As at 31 December 2006, buildings with net carrying amount of approximately RMB15,993,000 (2005: RMB16,782,000) were pledged as security for the Company's short-term bank loans.

18. INVENTORIES

	2006 **RMB'000**	2005 RMB'000
Raw materials	**4,073**	5,466
Work-in-progress	**2,786**	2,004
Finished goods	**4,519**	3,436
Total inventories	**11,378**	10,906
Less: Provision for impairment of inventories	**(143)**	(143)
Total inventories, net of provision	**11,235**	10,763

19. TRADE AND OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	**13,573**	39,178
Advances to staff	**710**	749
Prepayment and other receivables	**11,403**	4,690
	25,686	44,617

The credit terms of the Company range from 90 to 120 days. As at 31 December 2006, the ageing analysis of trade receivables was as follows:

	2006 RMB'000	2005 RMB'000
0 – 30 days	**5,806**	18,071
31 – 60 days	**1,762**	2,304
61 – 90 days	**1,144**	2,564
91 – 180 days	**1,618**	7,114
181 – 365 days	**3,243**	9,125
Over 365 days	**43,829**	28,585
Total trade receivables	**57,402**	67,763
Less: Provision for impairment of receivables	**(43,829)**	(28,585)
Total trade receivables, net of provision	**13,573**	39,178

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20. CASH AND CASH EQUIVALENTS

	2006	2005
	RMB'000	RMB'000
Cash and bank balances	**16,678**	17,207

21. SHORT-TERM BORROWINGS

	2006	2005
	RMB'000	RMB'000
Bank loans (Note (a))	**24,000**	24,500
Other borrowings (Note (b))	**10,020**	10,020
	34,020	34,520

Notes:

(a) The balance comprises short-term bank loans of RMB24,000,000 (2005: RMB24,500,000), which bore interest at 6.732% (2005: 6.138%) per annum and were secured by the land use rights and buildings of the Company, further details of which are set out in Notes 16 and 17 to the financial statements.

(b) The balance includes an interest-free unsecured loan of RMB10,000,000 granted by China Hi-Tech Investment Company (the "Lender"), an unrelated company which was administratively supervised by the State Economic Development Committee, for the purpose of developing Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule. According to the relevant agreement, upon the completion of the development project, the Company can determine to repay the loan by cash, or by issuance of shares of the Company to the Lender. Pursuant to an undertaking dated 15 February 2002 signed by the Lender, the Lender agreed not to demand repayment of the loan until August 2003 and not to request conversion of the loan into equity interest of the Company. As at 31 December 2006 and up to the date of approval of these financial statements, the Lender has not demanded for repayment of the loan and the directors consider it appropriate to continue to classify the loan as current liabilities.

The remaining balance represents another loan amounted to RMB20,000 (2004: RMB20,000) from an independent third party which was unsecured, interest bearing at 5.31% per annum and repayable on demand.

(c) The carrying amounts of short-term borrowings approximate their fair values.

22. TRADE AND OTHER PAYABLES

	2006 **RMB'000**	2005 RMB'000
Trade payables	**7,959**	4,983
Advance payments from customers	**4,379**	5,294
Provision for staff welfare	**573**	704
Payable for PRC statutory contribution	**3,518**	3,349
Payable for acquisition of fixed assets	**2,568**	2,573
Payable to suppliers	**–**	1,884
Other taxes payable	**8,132**	7,578
Other accruals	**850**	732
	27,979	27,097

As at 31 December 2006, the ageing analysis of trade payables was as follows:

	2006 **RMB'000**	2005 RMB'000
0 – 1 month	**4,907**	2,199
1 – 6 months	**1,459**	1,237
6 – 12 months	**939**	1,261
1 – 2 years	**654**	241
Over 2 years	**–**	45
	7,959	4,983

The directors consider that the carrying amount of trade and other payables approximates their fair value.

23. INCOME TAX PAYABLE

As at 31 December 2006, the income tax payable comprises:

	2006 **RMB'000**	2005 RMB'000
Current tax:		
EIT payable	**–**	54

24. DEFERRED TAX LIABILITIES

	2006 **RMB'000**	2005 RMB'000
As at 1 January	**2,817**	2,598
(Credited)/charged to the income statement (Note 9)	**(2,817)**	219
As at 31 December	**–**	2,817

The deferred tax liability represented EIT arising from temporary difference of sales recognition in prior years.

25. SHARE CAPITAL

	2006 **RMB'000**	2005 RMB'000
Authorised, issued and fully paid:		
539,654,240 domestic shares of RMB0.1 each	**53,965**	53,965
207,000,000 H shares of RMB0.1 each	**20,700**	20,700
Total ordinary shares as at 31 December	**74,665**	74,665

Domestic shares and H shares are ordinary shares in the registered share capital of the Company. However, H shares may only be subscribed for by or traded in HK$ between legal or natural persons of Hong Kong, Macau, Taiwan and any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for or purchased in Renminbi. Any dividends in respect of H shares are to be paid by the Company in HK$ whereas any dividends in respect of domestic shares are to be paid by the Company in Renminbi.

26. RESERVES

	Capital reserve						
	Share premium RMB'000	Revaluation reserve RMB'000	Others RMB'000	Statutory public welfare fund RMB'000	Statutory revenue reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
As at 1 January 2005	19,027	1,572	11,326	3,928	5,757	8,143	49,753
Loss for the year	–	–	–	–	–	(24,237)	(24,237)
Reversal of revaluation on buildings	–	(1,572)	–	–	–	–	(1,572)
As at 31 December 2005 and 1 January 2006	19,027	–	11,326	3,928	5,757	(16,094)	23,944
Loss for the year	–	–	–	–	–	(23,573)	(23,573)
As at 31 December 2006	19,027	–	11,326	3,928	5,757	(39,667)	371

Notes:

(a) According to the relevant regulations in the PRC and the Articles of Association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its profit after tax based on the statutory financial statements for the statutory revenue reserve (except where the reserve balance has reached 50% of the Company's paid-up share capital), and 5% to 10% at the discretion of the Board of Directors for the statutory public welfare fund, and for the discretionary revenue reserve at a percentage determined by the Board of Directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as dividends without the prior approval by shareholders under certain conditions.

(b) When the statutory revenue reserve is not sufficient to cover prior years' losses, current year's net profit will first be used to compensate the previous losses before appropriations to the statutory revenue reserve and statutory public welfare fund.

(c) The statutory revenue reserve as approved by the shareholders may be converted into share capital when the level of the reserve reaches 25% of the registered share capital provided that the balance of the statutory revenue reserve should not fall below 25% of the registered share capital after the conversion. As at 31 December 2006, no statutory revenue reserve was transferred into share capital subsequent to the Company's reorganisation to a joint stock limited company.

26. RESERVES (CONTINUED)

Notes: (continued)

(d) The discretionary revenue reserve as approved by the shareholders may be converted into share capital.

(e) The capital reserve of the Company includes certain non-distributable reserves created in accordance with the relevant accounting and financial regulations in the PRC. Certain components of the capital reserve could be capitalised into share capital upon approval.

(f) Profit appropriation is subject to the approval of the Board of Directors and the shareholders' meeting. In accordance with the prevailing rules and regulations in the PRC, the reserve available for distribution is the lower of the amount determined under accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong.

27. RELATED PARTY TRANSACTIONS

(a) The following is a summary of significant related party transactions which, in the opinion of the Directors, were carried out in the ordinary course of the Company's business:

Related party	**Nature of transaction**	**2006 RMB'000**	2005 RMB'000
Jilin You Lian Wei Shi Industrial Company Limited, a company owned by a director, Xu Dao Tian	Purchases	–	380

(b) Compensation of key management personnel

	2006 RMB'000	2005 RMB'000
Short-term employee benefits	–	265

Financial Information Summary

FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Renminbi)

A summary of the results and of the assets and liabilities of the Company for the past five financial years is set out below:

	Year ended 31 December				
	2006	2005	2004	2003	2002
Results	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/Profit attributable to shareholders	**(23,573)**	(24,237)	(18,397)	236	12,853

	As at 31 December				
	2006	2005	2004	2003	2002
Assets and liabilities	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**137,035**	163,097	188,324	206,775	213,971
Total liabilities	**(61,999)**	(64,488)	(63,906)	(59,674)	(67,106)
Shareholders' equity	**75,036**	98,609	124,418	147,101	146,865