



# BROAD INTELLIGENCE

## International Pharmaceutical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 1149)



The Board of directors (the "Board") of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2006, together with the comparative figures for the corresponding period in 2005.

The interim financial statements have not been audited, but have been reviewed by the Audit Committee and the auditors of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For the six months ended 30th June,</b>	
		<b>2006</b>	2005
		<b>(Unaudited)</b>	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>TURNOVER</b>	4	<b>156,102</b>	110,025
<b>COST OF SALES</b>		<b>(92,755)</b>	(65,002)
<b>GROSS PROFIT</b>		<b>63,347</b>	45,023
<b>OTHER REVENUE</b>	4	<b>519</b>	348
<b>SELLING AND DISTRIBUTION EXPENSES</b>		<b>(1,588)</b>	(1,108)
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		<b>(9,904)</b>	(6,492)
<b>PROFIT FROM OPERATIONS</b>		<b>52,374</b>	37,771
<b>FINANCE COSTS</b>		<b>(1)</b>	(1)
<b>PROFIT BEFORE TAXATION</b>	5	<b>52,373</b>	37,770
<b>INCOME TAX</b>	6	<b>(8,611)</b>	(5,958)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>43,762</b>	31,812
<b>DIVIDEND</b>	7	–	–
<b>EARNINGS PER SHARE – BASIC</b>	8	<b>HK10.94 cents</b>	HK7.95 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

		At 30th June, 2006 (Unaudited) HK\$'000	At 31st December, 2005 (Audited) HK\$'000
	Note		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	89,991	93,685
Lease premium on land		3,258	3,320
Intangible assets		87,377	71,929
		<hr/>	<hr/>
Total non-current assets		<b>180,626</b>	168,934
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories		7,895	7,461
Trade receivables	10	61,041	70,045
Prepayments, deposits and other receivable		439	468
Cash and bank balances		177,177	139,327
		<hr/>	<hr/>
		<b>246,552</b>	217,301
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade payables	11	15,263	18,158
Accruals and other payables		22,341	23,707
Tax payable		4,460	4,117
Amount due to a director		1,099	–
		<hr/>	<hr/>
		<b>43,163</b>	45,982
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>203,389</b>	171,319
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>384,015</b>	340,253
		<hr/> <hr/>	<hr/> <hr/>
REPRESENTED BY:			
<b>CAPITAL AND RESERVES</b>			
Share capital	12	40,000	40,000
Reserves		344,015	300,253
		<hr/>	<hr/>
Shareholders' equity		<b>384,015</b>	340,253
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>For the six months ended 30th June,</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>58,492</b>	44,819
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(20,642)</b>	(94,709)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>37,850</b>	(49,890)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>139,327</b>	180,605
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>177,177</b>	130,715
<b>ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>177,177</b>	130,715

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	General reserve HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
(Unaudited)								
As at 1st January, 2005								
As previously reported	40,000	27,944	9,906	16,341	19,608	-	155,453	269,252
Adjustment arising from derecognition of negative goodwill	-	-	-	-	-	-	753	753
As restated	40,000	27,944	9,906	16,341	19,608	-	156,206	270,005
Profit for the period	-	-	-	-	-	-	31,812	31,812
Transfer to reserve	-	-	-	1,688	-	-	(1,688)	-
As at 30th June, 2005	<u>40,000</u>	<u>27,944</u>	<u>9,906</u>	<u>18,029</u>	<u>19,608</u>	<u>-</u>	<u>186,330</u>	<u>301,817</u>
(Unaudited)								
As at 1st January, 2006	<b>40,000</b>	<b>27,944</b>	<b>9,906</b>	<b>20,117</b>	<b>19,608</b>	<b>4,104</b>	<b>218,574</b>	<b>340,253</b>
Profit for the period	-	-	-	-	-	-	43,762	43,762
Transfer to reserve	-	-	-	2,440	-	-	(2,440)	-
As at 30th June, 2006	<u><b>40,000</b></u>	<u><b>27,944</b></u>	<u><b>9,906</b></u>	<u><b>22,557</b></u>	<u><b>19,608</b></u>	<u><b>4,104</b></u>	<u><b>259,896</b></u>	<u><b>384,015</b></u>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### 1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

The principal activities of the Group are manufacture, sale, research and development of pharmaceutical products and investment holding. The address of its registered office is M&C Corporate Services Limited, PO Box 309GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 1903 Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong.

The Company was incorporated in the Cayman Islands on 16th April, 2003 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 24th November, 2003.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 Annual Report.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

In this reporting period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.

## 2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Int-7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – Int-8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – Int-9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

## 3. SEGMENT REPORTING

More than 95% of the operating profits and assets are attributable to the Group's operations, manufacturing and sales of pharmaceutical products in the PRC. Accordingly, no analysis by geographical and business segment is provided.

#### 4. TURNOVER AND OTHER REVENUE

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

	For the six months ended	
	30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Sales of pharmaceutical products	<b>156,102</b>	110,025
	<hr/>	<hr/>
Other revenue		
Interest income	<b>519</b>	348
	<hr/>	<hr/>
	<b>519</b>	348
	<hr/>	<hr/>
Total revenue	<b>156,621</b>	110,373
	<hr/> <hr/>	<hr/> <hr/>

#### 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended	
	30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Research and development costs	<b>76</b>	106
Amortisation of lease premium on land lease	<b>70</b>	49
Depreciation	<b>3,694</b>	2,345
Staff costs (including directors' remuneration)		
Salaries and allowance	<b>2,710</b>	2,492
Contributions to retirement scheme	<b>404</b>	345
	<hr/>	<hr/>
	<b>3,114</b>	2,837
	<hr/> <hr/>	<hr/> <hr/>



## 6. INCOME TAX

Income tax consists of:

	<b>For the six months ended</b>	
	<b>30th June,</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
PRC enterprise income tax	<b><u>8,611</u></b>	<u>5,958</u>

- (i) Fujian Fuqing Pharmaceutical Co., Ltd. ("Fuqing Pharmaceutical"), which was formerly a PRC domestic enterprise, was subject to PRC enterprise income tax at a rate applicable to the company on the assessable profits for the year. With effect from 16th November, 1999, Fuqing Pharmaceutical was changed from a domestic enterprise to a wholly-foreign owned enterprise and is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The 50% tax reduction was expired on 31st December, 2003.
- (ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (2005: Nil).
- (iii) The Group did not have any significant unprovided deferred taxation at 30th June, 2006 (2005: Nil).

## 7. DIVIDEND

The directors do not recommend the payment of a dividend for the six months ended 30th June, 2006 (2005: Nil).

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2006 is based on the consolidated profit attributable to shareholders of approximately HK\$43,762,000 (2005: HK\$31,812,000) and the weighted average number of 400,000,000 shares (2005: 400,000,000 shares) in issued during the period.

Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in issue during the six months ended 30th June, 2006 and 2005.

## 9. CAPITAL EXPENDITURE

During the period, the Group spent approximately Nil (2005: HK\$43,176,000) on acquisition of property, plant and equipment.

## 10. TRADE RECEIVABLES

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

Ageing analysis of trade receivables is as follows:

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	31st December, 2005 (Audited) HK\$'000
0 – 30 days	<b>33,509</b>	35,923
31 – 60 days	<b>27,532</b>	34,122
	<b>61,041</b>	70,045

## 11. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	31st December, 2005 (Audited) HK\$'000
0 – 30 days	<b>15,263</b>	18,158

## 12. SHARE CAPITAL

	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.1 each		
<i>Authorised</i>		
As at 31st December, 2005 and 30th June, 2006	<u>2,000,000</u>	<u>200,000</u>
<i>Issued and fully paid</i>		
As at 31st December, 2005 and 30th June, 2006	<u>400,000</u>	<u>40,000</u>

**AUDITORS' INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF  
BROAD INTELLIGENCE INTERNATIONAL PHARMACEUTICAL  
HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**INTRODUCTION**

We have been instructed by the Company to review the interim financial report set out on pages 1 to 9.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**REVIEW WORK PERFORMED**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

## REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2006.

**CCIF CPA Limited**

*Certified Public Accountants*  
Hong Kong

**Kwok Cheuk Yuen**

*Practising Certificate Number P02412*

Hong Kong, 13th September, 2006

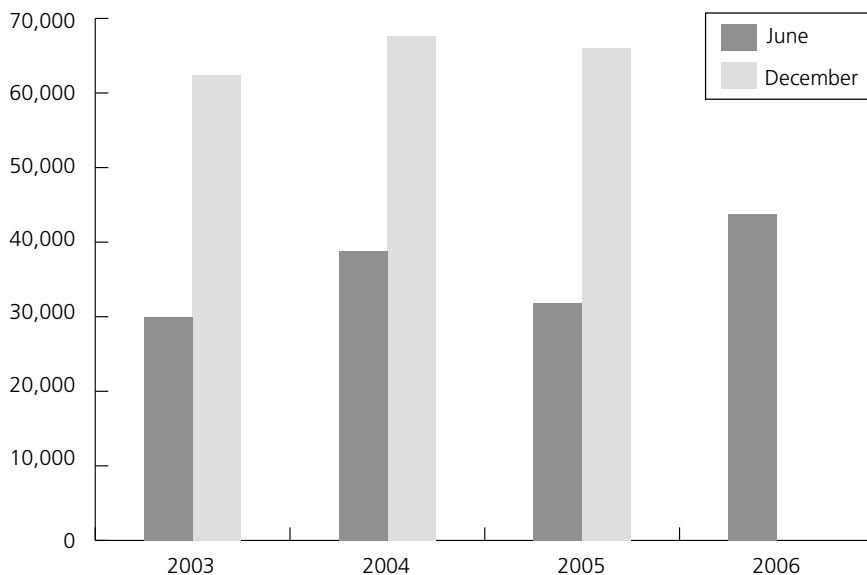


## MANAGEMENT DISCUSSION AND ANALYSIS

### Results highlights

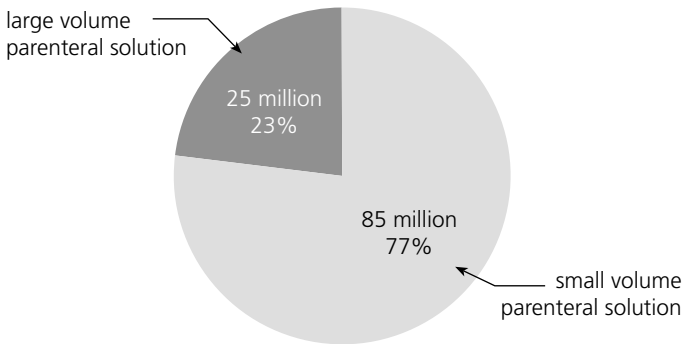
For the six months ended 30th June, 2006, consolidated turnover of the Group amounted to approximately HK\$156 million, (For the six months ended 30th June 2005: HK\$110 million), represent an increase of 41.8% over last period. Profit after tax was approximately HK\$43.8 million, (For the six months ended 30th June, 2005: HK\$31.8 million), represent an increase of 37.7% over last period. The gross profit margin was 40.6% (For the six months ended 30th June, 2005: 40.9%). Basic earnings per share was HK10.94 cents (2005: HK7.95 cents).

**Profit after tax for the period and year ended**

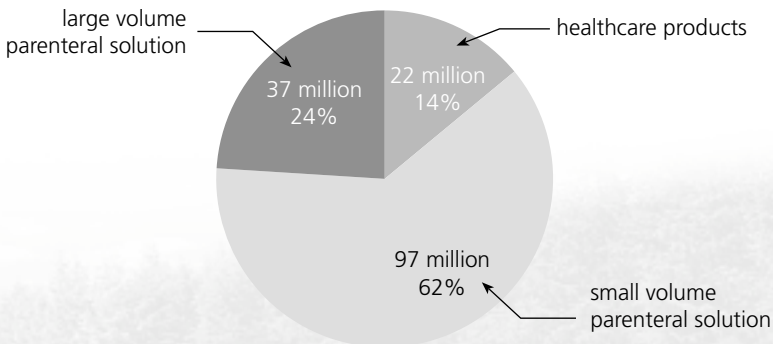


During the first six months of 2006, the sales of small volume parenteral solution, large volume parenteral solution and healthcare products amounted to HK\$97 million, HK\$37 million and HK\$22 million respectively (As at 30 June 2005: HK\$85 million, HK\$25 million and 0 respectively). The sales amount increase sharply during the period. The Sales of health product constitute 14.5% of the total sales. In addition, in response to the demand in the market, the production and sale of some new products with higher profit margin were launched. The management of the Company exercised stringent cost control, quality assurance and expense control, so as to minimize production and management costs and improve flexibility and efficiency. By improving its productivity and product quality and expanding its operation network, the Group has built up a robust foundation for the further development of its business.

#### Turnover Analysis for the six months ended 30 June 2005



#### Turnover Analysis for the six months ended 30 June 2006



## Dividends

The Board does not recommend payment of interim dividend for the period ended 30 June 2006 (2005: Nil).

## Business review

Thanks to the concerted efforts of all the staff of the Group, the 15 new production lines in our new production complex were granted GMP certification by the National Food and Drug Administration in last year. The Group is one of the pharmaceutical manufacturers with the most diversified production technologies (various production lines) in the PRC. The new production lines enabled the Group to respond readily to the market demand and pave the way for the future development of the Group going forward from 2006 to 2008.

The 15 new GMP production lines are for products of different forms, namely pill, capsule, granule, powder, herbal tea, edible solution (口服溶液劑), syrup, suspension, nasal drop, eye drop, ear drop, tincture, solution, suppository and aerosol. Certain new production lines in the production complex started trial production in June last year and subsequently commenced mass production in September, resulting in a significant increase in the Group's production capacity and output.

For the period ended 30 June 2006, 5 out of the 15 new GMP Production lines were in used. We have confident that we have enough production capacity to cater for the needs of the market and further development for the Group.

## Products

The Group has permits for over 100 pharmaceutical products. Three new products including Olive Granules (橄欖晶沖劑) have obtained national patents, while patents for other products are being applied for. The new products are in various forms, including pill, capsule, granule, powder, herbal tea, edible solution (口服溶液劑), syrup, suspension, nasal drop, eye drop, ear drop, tincture, solution, suppository and aerosol.

## Target customers

Patients of hospitals and clinics used to be the end users of the Company's products. Today, the sales network of the Company's new products has been extended to drug stores and supermarkets. Most of our new products are healthcare products or healthy food with general therapeutic effect, which are good for both patients and non-patients. Healthcare products are popular nowadays and the Group will launch new products targeting this market. By extending its existing market with the new products, the Group will move forward to a new horizon in terms of product sales.

## Outlook and prospect

The Group will focus on the diversification of its product lines. Launch of the new production lines is expected to provide a new drive for the Group's growth, and enable the Group to further increase its sales and strengthen the competitiveness of its products. The Group will actively explore the PRC and overseas markets by introducing more new products in various forms. It is expected that sales will continue to grow. Through enhanced corporate management, the Group's products will see improvement in terms of both technology and results performance. The Group's main focus includes:

1. The Group introduced more new pharmaceutical products, the mass production of some of them commenced in the second half of 2005. These pharmaceuticals include medicine for the treatment of pains caused by influenza and bronchitis; product for the prevention of respiratory infection caused by influenza A virus; brain tonic; product for treatment of infection from haemolytic streptococcus, meningococcus and pneumococcus; dermatological; product for rhinitis and paranasal sinuses; eye tonic; supplements; detoxification products; lipid lowering agent. Production of other pharmaceuticals will commence in the coming year.
2. To keep monitoring trends in the pharmaceutical market to make timely adjustments on sales strategies, preparing for the launch of new products and actively seeking breakthrough in the sales of new products.
3. To continue strict internal management to enhance quality and efficiency. Through various examinations and quality control, the internal management is to be strengthened. Research and development will be speeded up in response to market demand. Internal audit is to be strengthened with stringent control over various expenses to manage relevant risks.



4. To actively seek opportunities of joint venture and cooperation, so as to further explore the prospects of globalization.

With our experience in the manufacture and sale of pharmaceutical products, our marketing network, and our experienced and professional consultant team, the Group will implement the following development strategies:

### **Expansion of production facilities**

In order to bring maximum returns and revenue to shareholders, the Group will become stronger and more competitive. The Group has acquired a parcel of land with an area of more than 26,000 square meters (40 mous) adjacent to its existing production facilities for the development of new production facilities, which will be used for the extraction of pure Chinese herbal essence for the Group's proprietary products "護肝胃酒靈 (Olive Granules)" and Anti-diabetes Tea.

### **Expansion into overseas markets**

To meet market demands, the Group has applied for the registration of several products in Hong Kong. The applications are being processed.

### **Sale of products**

As at 30 June 2006, the Group offered 65 types of products in different forms, which were all sold in the PRC and denominated in Renminbi. In which, 58 products related to injection solution and 7 products related to health products. Customers of the Group mainly comprised licensed pharmaceutical distributors, hospitals and clinics in the PRC.



## **CAPITAL AND OTHER INFORMATION OF THE GROUP**

### **Financial information**

The Group had cash and bank balances totaling approximately HK\$177 million as at 30th June, 2006. As the Group has no outstanding bank loan, there is no gearing ratio (2005: 0%). As at 30th June 2006, the current ratio and quick ratio are 5.71 and 5.53 respectively (as at 31st December, 2005: 4.73 and 4.56 respectively). As at 30th June, 2006, debtors turnover period, inventory turnover period and creditors turnover period were 71 days, 9 days and 30 days respectively (as at 31st December, 2005: 98 days, 10 days and 42 days, respectively). Overall, the Group has a sound financial position to support its future development.

### **Contingent Liabilities**

As at 30 June 2006, the Group and the Company did not have any significant contingent liability (2005: Nil).

### **Interest rate and currency exposure**

The Group has no material currency and interest rate exposure.

### **Employees and remuneration policy**

As at 30 June 2006, the Group had a total of 259 employees (2005: 245). The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including staff provident fund scheme and discretionary bonus scheme.

## RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The contribution paid for the six months ended 30 June 2006 and June 2005 was approximately HK\$404,000 and HK\$345,000 respectively. The Group has made adequate provision in the financial statements in respect of the benefit schemes. In addition, the Group also provides housing and food allowance to this staff. In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK\$1,000 by each of the employee and the Group) on a monthly basis to the fund.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.



## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2006.

### Directors' Interest in Share Capital

As at 30 June 2006, the interests of the directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI were as follows:

<b>Director</b>	<b>No. of shares Held</b>	<b>Percentage of Interest</b> <i>(Corporate interest (Note))</i>
Zhong Houtai	211,720,000	52.93%

Notes:

1. The shares are registered under the name of Elite Achieve Limited.
2. The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.
3. Under the SFO, Mr. Zhong Houtai is deemed to be interested in all the shares registered in the name of Elite Achieve Limited.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' Interests in Share Capital" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the period ended 30 June 2006.

## SHARE OPTION SCHEME

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

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, persons interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure Of Interest) Ordinance were as follows:

Shareholder	Number of shares	Percentage hold
Elite Achieve Limited	211,720,000	52.93% (Note 1)
Zhong Houtai	211,720,000	52.93% (Note 1)

Note 1: The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.

Save as disclosed above, as at 30 June 2006, the Company is not aware of any person having interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under Part XV of section 336 of the SFO.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or is existing during the six months ended 30 June 2006.

## CONNECTED AND RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2006, the Group had no transactions with related or connected parties.

## CORPORATE GOVERNANCE

### Corporate governance practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. Throughout the period ended 30 June 2006, the Group has applied the principles and complied with most of the code provisions and recommended best practices prescribed in the recently promulgated Code on Corporate Governance Practices (“CG Code”) set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and was in force prior to 1 January 2005. This report describes its corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

None of the directors is aware of any information that would reasonably indicate that the Company or any of its directors were not in compliance with the Model Code or the Code at any time for the period ended 30th June, 2006. In the opinion of the board, the Company had fully complied with the provisions as provided under the Corporate Governance Code during the interim period. In order to be in compliance with the provisions as provided under the Corporate Governance Code, the Company has established an audit committee and a remuneration committee.

### CODE Provision A2.1

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

### **CODE Provision A4.1**

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

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

In compliance of Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing over one-third of the Board of Directors. Amongst them, Mr. Cheung Chuen, who is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and has more than six years' experience in accounting and auditing, has the appropriate professional qualifications required under Rule 3.10(2).

The independent non-executive Directors have participated in Board meetings as well as its various Board committees, and have given their opinions on the decision-making on significant matters by making use of their professional knowledge and experience. They have conscientiously examined the connected transactions and capital dealings with connected parties to ensure fairness and impartiality, expressing their independent opinions and performing their duties independently. The Board considered that all non-executive Directors to be independent in character and judgement. None of the independent non-executive Directors have relationships or circumstances that are likely to effect their professional judgement and the independent non-executive Directors have made active contribution to protecting the interests of the Company as a whole and the legal rights of all of shareholders of the Company, as well as promoting the healthy development of the Company. Three independent non-executive Directors separately submitted their confirmation letters on their independence, confirming that they had strictly observed the requirements for independence as set out in rule 3.13 of the Listing Rules during the year under review. Independent non-executive Directors are independent persons of the Company.

## **DIRECTORS' SECURITIES TRANSACTIONS**

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

## **AUDIT COMMITTEE**

The Company has established an audit committee on 3 November 2003 with written terms of reference in compliance with the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Pei Renjiu, Mr. Li Kai Ming and Mr. Cheung Chuen. Mr. Cheung Chuen is the chairman of the committee. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's qualified accountant, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group. Besides, the audit committee will make recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc. Every year, the audit committee meets with external auditors of the Company to discuss the annual audit plan. 2 meetings were held during the current period including to reviews the unaudited financial statements for the six months ended 30 June 2006.

## **NOMINATION COMMITTEE**

According to the CG Code, the Company shall set up a nomination committee with a majority of the members thereof being independent non-executive directors. However, the Company did not establish a nomination committee. The process and criteria adopted by the Board to select and recommend candidates for directorship are based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. During the year, no Director has been newly appointed.



## REMUNERATION COMMITTEE

The Company established a remuneration committee on 5 August 2005. The remuneration committee is led by Mr. Li Kai Ming, an independent non-executive director. Member of the remuneration committee includes Mr. Pei Renjiu and Mr. Cheung Chuen, also an independent non-executive director. The remuneration committee has adopted a defined terms of reference in consistence with the CG Code and it is available from the Company Secretary at any time. The duties of the remuneration committee includes making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme.

## PUBLIC FLOAT

As at the date of this report, the Company had maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

## APPRECIATION

I would like to take this opportunity to extend my deepest gratitude to the directors and staff as a whole for their immense contribution, dedication and diligence over the year.

By order of the board  
**Zhong Houtai**  
*Chairman*

13 September 2006

