Chairman's Statement

I am pleased to present the report of Wing Shan International Limited (the "Company") together with the Company's subsidiaries called the "Group" to the shareholders of the Company.

BUSINESS REVIEW

HE HAOCHANG *Chairman*

The principal activities of the Group have been changed from the generation and sale of electricity in the People's Republic of China ("PRC") to the production and sale of Chinese medicine and pharmaceutical products after the acquisition of 51% equity interest in Foshan Dezhong Pharmaceutical Co., Ltd. ("DZH") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX") on 9 October 2006 by means of acquiring the entire equity interest in the investment holding company, Hensil Holdings Company Limited, of DZH and FLX and the disposal of 80% equity interest in 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd.) ("Shakou JV") on 28 December 2006 by means of disposing the entire equity interest in the investment holding company, Hensil Worldwide Inc., of Shakou JV.

Reasons for the Acquisition

The Group was engaged in the generation and sale of electricity in Foshan City, Guangdong Province, PRC. Because of the persistent surge of fuel oil prices and the inflexible on-grid tariff adjustment under the strict control of the relevant authorities of the Guangdong Provincial Government, the Group recorded significant losses for the years.

The board of directors ("Board") had concerned that the consideration paid for the acquisition of DZH and FLX was settled by convertible notes. Despite the potential dilution of the shareholding in the Company as a result of the conversion of the convertible notes and such conversion subject to public float requirement, the acquisition represented a good opportunity for the Group to diversify its business into pharmaceutical sector which DZH and FLX have a long and successful history of operations and reputable products in the market. Further, in view of the solid financial performance and the business prospects of both DZH and FLX, the Board considered that the acquisition provides a good opportunity to improve the Group's operating results in the future.

Reasons for the Disposal

After the above said acquisition, the Group was at that moment engaged in the (i) generation and sale of electricity in Foshan City, Guangdong Province, PRC; and (ii) production and sale of Chinese medicine and pharmaceutical products in the PRC.

BUSINESS REVIEW (Continued)

Reasons for the Disposal (Continued)

Given the state of prevailing high level of international fuel oil prices and the strict governmental control which restricted the flexibility of on-grid tariff adjustment and cost subsidies, the Board considered with the long-term commercial viability of Shakou JV, unless the Group has the requisite financial resources and prepared to support the operations of Shakou JV under extreme unfavourable business and operating conditions in the long-term. The Board believed that the years business hardship experienced by the Group reflected an industry-wide phenomenon for most fuel-oil power plants in Guangdong Province.

In the absence of positive indication of any changes in the policy or operating conditions that might improve the outlook and profitability of Shakou JV and taken into account the reaction of the share price of the Company following the above said acquisition. The Board considered that it would be strategically appropriate for the Group to divest its investment in Shakou JV.

After the completion of the above said acquisition, the Company negotiated with a controlling shareholder of the Company, Foshan Development Company Limited, on arm's length basis to dispose Shakou JV. Both parties agreed that the consideration was determined based on the net book value as at 30 September 2006 and settled by redemption of the convertible note issued for the above said acquisition. The Board considered that the disposal represented a good opportunity of the Group to dispose a loss making business at its book value.

BUSINESS RESULTS

In 2006, the Group experienced another year of extreme difficulty but there were threats as well as opportunities to the Group.

The turnover of HK$109.63 million represented the invoiced value, net of value added tax and sales tax, in respect of the sales of Chinese medicine and pharmaceutical products from October 2006 to 31 December 2006. According to the track record throughout the period from 2003 to 2006, there was an average compound growth rate of about 5% per annum.

The turnover of HK$721.75 million (2005: HK$824.04 million) included in discontinued operation represented the invoiced value, net of value added tax, in respect of the sales of electricity for the period from 1 January 2006 to 28 December 2006. The major operating expense of electricity generation was fuel oil cost which stated at high levels leading to the operating loss. In order to reduce the loss on electricity generation, the management decided to decrease in electricity generation.

The profit from continuing operation before finance costs and income tax was HK$0.48 million. The finance costs amounted to HK$6.36 million including HK$6.1 million one off interest expense and early redemption costs on the convertible notes issued and redeemed in the year.

The loss from discontinued operation was HK$425.30 million (2005: HK$801.27 million) including a gain on disposal of the discontinued operation of HK$63.36 million and impairment losses on fixed assets of HK$280.12 million (2005: including an impairment loss on goodwill of HK$578.32 million and impairment losses on fixed assets of HK$120.34 million).

THE WAY AHEAD AND ACCOUNT PLANNING

After the acquisition of DZH and FLX and disposal of Shakou JV, the principal activity of the Group is the production and sale of Chinese medicine and pharmaceutical products in the PRC. The Group will concentrate its new core business which can be or most likely to contribute positively to the Group by putting more efforts to develop the sales and marketing network in the PRC. The Company, however, will also seek any business which can provide positive effect to the Group's financial position.

The management is planning to lodge an application to court for capital reduction by way of reduction the Company's share premium account to eliminate the Company's entire accumulated losses amounted to approximately HK$837,876,000 as at 31 December 2006. For the avoidance of doubt, the shareholders of the Company should note that there can be no assurance that a dividend will be declared or paid in future even if the capital reduction has been effective.

APPRECIATION

Throughout the year, our management teams and all our staff have endeavoured their greatest effort to brave the challenges brought about by the difficult external environment. I have witnessed the strongest ever unity amongst all of us at the highest team spirit to face the difficult external environment. At the same time, I have also experienced the warmest support and the most generous assistance from our suppliers, joint-venture partners, customer, the relevant authorities of the People's Government of Foshan Municipality and in particular the greatest patience of our shareholders. On behalf of the Board, I must hereby express my sincere appreciation to all of you and take this opportunity to thank Mr. LI Feng (resigned as director on 1 January 2007) for his valuable contribution to the Company and the Group.

HE Haochang
Chairman

Hong Kong, 23 April 2007