1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Stock Exchange. Its ultimate holding company is Absolute Target Limited, a company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The financial statements are presented in Hong Kong dollars, and the functional currency of the Company is in Renminbi.

As the Company is listed in Hong Kong, the director consider that it is appropriate to present the financial statements in Hong Kong dollars.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in production and sales of a series of health care, pharmaceutical products and electronic cigarette components.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December, 2005 or 1 January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies[3]
HK(IFRIC) — INT 8	Scope of HKFRS 2[4]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC) — INT 12	Service concession arrangment[8]

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January, 2005

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

For previously capitalised goodwill arising on acquisitions of subsidiaries after 1 January, 2001, the Group has discontinued amortisation from 1 January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisitions prior to 1 January, 2005 (continued)

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group 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.

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.

Prepaid lease payments

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as operating lease unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease.

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes and state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

Intangible assets

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

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

The Group's intangible assets represent technology know-how acquired from third parties.

Inventories

Inventories comprise raw materials, work-in-progress and finished goods are carried at the lower of cost and net realisable value.

Cost includes direct materials, direct labour costs and overheads that have been incurred in bringing the inventories and work in progress to their present location and condition and is calculated using the weighted average method.

Net realisable value is the estimated by the management and is determined by reference to the selling price less all costs to completion and costs to be incurred in selling and distribution.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables, and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

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

Available-for-sale financial assets

The Group's available-for-sale financial assets comprised an unlisted equity investment.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities including trade payables, accruals and other payables, amount due to a related company, amounts due to directors and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

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

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

Impairment losses (other than goodwill)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, 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 trade receivable

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Allowance for obsolete stocks

The management of the Group reviews an aging analysis at each balance sheet date and identifies the slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at balance sheet date and makes the necessary allowance for obsolete items.

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Changing the estimations made by management could materially affect the carrying amounts of goodwill and intangible assets. As at 31 December, 2006, the carrying amounts of goodwill and intangible assets were approximately HK$3,934,000 and HK$3,968,000. During the year ended 31 December, 2006, no impairment loss in respect of the goodwill and intangible assets were recognised.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include cash and bank balances, trade receivables, other receivables, amounts due from related companies, borrowings, trade payables, accrual and other payables and amount due to a related company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate bank borrowings.

The Group is exposed to fair value interest rate risk through the impact of market interest rate changes on interest bearing borrowings. The interest rate and terms of repayment of borrowings of the Group are disclosed in note 25.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to the other loans bearing interest at LIBOR + 2.5% p.a. (see Note 25 for details of these borrowings). The Group will continue to monitor the movement of LIBOR and consider hedging the interest rate risk should the need arise.

Credit risk

The Company's credit is primarily attributable to trade receivables, other receivables, amount due from related companies and bank balances.

The Group'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 each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team 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 Group 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. The Group has concentration of credit risks with a few customers (including the amounts due from related companies (note 22)) in the PRC, the management closely monitors the subsequent settlement of the customers and does not grant long credit period to the counterparties. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's bank balances are deposited with banks of high credit rating in the PRC and Hong Kong and the Group has limited exposure to any single financial institution.

5. FINANCIAL INSTRUMENTS (continued)

Fair value

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

6. REVENUE

Revenue represents the amounts received and receivable for goods sold net of returns.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating business — production and sales of health care products, pharmaceutical products and electronic cigarettes components. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

RESULTS

	Health care products		Pharmaceutical products		Electronic cigarettes components		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment turnover	**83,690**	100,583	**33,063**	30,088	**102,720**	46,092	**219,473**	176,763
Segment result	**573**	9,020	**2,011**	3,699	**21,110**	12,080	**23,694**	24,799
Other income							**1,609**	423
Unallocated corporate expenses							**(14,359)**	(10,188)
Finance costs							**(3,555)**	(3,285)
Profit before tax							**7,389**	11,749
Income tax expense							**(2,023)**	(2,769)
Profit for the year							**5,366**	8,980

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

	Health care products		Pharmaceutical products		Electronic cigarettes components		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS								
Segment assets	**167,129**	209,023	**35,019**	51,985	**116,616**	15,761	**318,764**	276,769
Unallocated corporate assets							**75,279**	71,496
Consolidated total assets							**394,043**	348,265
LIABILITIES								
Segment liabilities	**26,305**	26,786	**3,248**	4,682	**12,300**	4,156	**41,853**	35,624
Unallocated corporate liabilities							**46,504**	85,473
Consolidated total liabilities							**88,357**	121,097

OTHER INFORMATION

	Health care products		Pharmaceutical products		Electronic cigarettes components		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Additions of property, plant and equipment	**15**	3	**631**	413	**—**	—	**—**	5	**646**	421
Allowance for obsolete stocks	**—**	1,000	**—**	—	**—**	—	**—**	—	**—**	1,000
Depreciation of property, plant and equipment	**1,361**	1,834	**534**	626	**140**	—	**190**	211	**2,225**	2,671
Amortisation of intangible assets	**—**	—	**652**	2,129	**938**	923	**—**	—	**1,590**	3,052
Loss on written off of property, plant and equipment	**—**	(74)	**—**	—	**—**	—	**—**	—	**—**	(74)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC") and the segments assets of the Group are substantially located in the PRC. Accordingly, no analysis by geographical segment is presented.

8. FINANCE COSTS

	2006 **HK$'000**	2005 HK$'000
The finance costs represent interests on:		
— bank borrowings wholly repayable within five years	**1,823**	2,457
— other loans	**1,708**	—
— a finance lease	**24**	28
— preferred shares issued by a subsidiary	—	800
	3,555	3,285

9. INCOME TAX EXPENSE

	2006 **HK$'000**	2005 HK$'000
Current tax:		
PRC Enterprise Income Tax	**2,023**	2,769

No Hong Kong Profits Tax is payable by the Company or its subsidiaries operated in Hong Kong since they had no assessable profit for the year.

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profit applicable to each subsidiary in the PRC.

9. INCOME TAX EXPENSE (continued)

The Group's PRC subsidiaries are subject to the PRC income tax and local income tax at the following rate:

	2006	2005
Shenyang Jinlong Health Care Products Co., Ltd. ("Shenyang Jinlong")	**18%**	18%
Shenyang Chenlong Longevity Ginseng Co., Ltd. ("Shenyang Chenlong")	**16.5%**	15%
Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical")	**7.5%**	7.5%
Other PRC subsidiaries	**33%**	33%

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Jinlong is subject to PRC income tax of 15% and local income tax of 3%.

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Chenlong is subject to PRC income tax of 15% tax and local income tax of 1.5%.

Pursuant to relevant tax rules and regulations in the PRC, Jinlong Pharmaceutical is entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. In 2005, Jinlong Pharmaceutical is entitled to a 50% relief from PRC income tax of 15% for the three years ending 31 December, 2007 and entitled to an exemption of the local income tax of 3%. Therefore, Jinlong Pharmaceutical is subject to PRC income tax of 7. 5% for the period.

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**7,389**	11,749
Tax at PRC income tax rate of 33% (2005: 33%)	**2,438**	3,877
Tax effect of expenses not deductible for tax purpose	**2,874**	1,690
Tax effect of tax losses not recognised	**356**	212
Effect of tax relief entitled by the Company's subsidiaries	**(3,645)**	(3,010)
Taxation for the year	**2,023**	2,769

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$1,721,000 (2005: HK$642,000) available for offset future profits. No provision of deferred taxation has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

10. PROFIT FOR THE YEAR

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Profit for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 11)	**5,646**	5,582
Other staff costs		
— salaries and allowances	**8,490**	8,193
— retirement benefits scheme contributions	**384**	366
	14,520	14,141
Amortisation of intangible assets (included in cost of sales)	**1,590**	3,052
Amortisation of prepaid lease payments	**64**	64
Allowance for obsolete stocks	**—**	1,000
Allowance (write back) for bad and doubtful debts	**—**	(3,000)
Impairment loss on available-for-sale investments	**—**	1,000
Cost of inventories recognised as expense	**117,334**	76,147
Auditors' remuneration	**920**	820
Write off of property, plant and equipment	**—**	74
Depreciation and amortisation		
— owned assets	**2,225**	2,483
— asset held under a finance lease	**—**	188
	2,225	2,671
Operating lease rentals in respect of land and buildings	**4,286**	3,958
Rental income	**(234)**	(231)
Interest income	**(366)**	(72)

11. DIRECTORS' EMOLUMENTS

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

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000	Cheng Kong Yin HK$'000	Ding Xun HK$'000 (Note a)	Song Xiao Hai HK$'000 (Note b)	Pang Hong HK$'000	Cheung Kwan Hung HK$'000	Total 2006 HK$'000
Fees	—	—	—	—	650	—	100	100	100	950
Other emoluments										
Salaries and allowances	1,261	1,170	1,040	1,177	—	—	—	—	—	4,648
Scheme contributions	12	12	12	12	—	—	—	—	—	48
Total emoluments	1,273	1,182	1,052	1,189	650	—	100	100	100	5,646

Notes:

(a) Ding Xun was appointed as Independent Non-executive Director on 27 July, 2006.

(b) Song Xiao Hai resigned as Independent Non-executive Director on 27 July, 2006.

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000	Cheng Kong Yin HK$'000	Song Xiao Hai HK$'000 (Note a)	Pang Hong HK$'000	Mo Kwan Nin HK$'000 (Note b)	Cheung Kwan Hung HK$'000	Total 2005 HK$'000
Fees	—	—	—	—	650	50	100	—	100	900
Other emoluments										
Salaries and allowances	1,247	1,170	1,040	1,177	—	—	—	—	—	4,634
Scheme contributions	12	12	12	12	—	—	—	—	—	48
Total emoluments	1,259	1,182	1,052	1,189	650	50	100	—	100	5,582

Notes:

(a) Song Xiao Hai was appointed as Independent Non-executive Director on 21 June, 2005.

(b) Mo Kwan Nin resigned as Independent Non-executive Director on 21 June, 2005.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2006 and 2005 were all directors of the Group Company and details of whose emoluments are set out in Note 11 above.

13. DIVIDENDS

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: nil).

14. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	HK$'000
Earnings		
Earnings for the purposes of basic earnings per share	**5,366**	8,980

	2006	2005
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**616,960**	584,000

Diluted earnings per share has not been presented as there were no potential ordinary shares in both years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2006

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January, 2005	27,823	1,603	9,665	1,576	4,701	45,368
Exchange adjustments	535	7	185	24	72	823
Additions	—	—	260	32	129	421
Written off	—	—	—	—	(215)	(215)
At 31 December, 2005	28,358	1,610	10,110	1,632	4,687	46,397
Exchange adjustments	1,017	14	371	46	136	1,584
Additions	—	—	514	76	56	646
At 31 December, 2006	**29,375**	**1,624**	**10,995**	**1,754**	**4,879**	**48,627**
DEPRECIATION						
At 1 January, 2005	5,126	1,293	4,189	1,309	2,206	14,123
Exchange adjustments	99	1	80	19	33	232
Provided for the year	933	78	935	80	645	2,671
Eliminated on written off	—	—	—	—	(141)	(141)
At 31 December, 2005	6,158	1,372	5,204	1,408	2,743	16,885
Exchange adjustments	239	7	198	39	80	563
Provided for the year	948	75	635	67	500	2,225
At 31 December, 2006	**7,345**	**1,454**	**6,037**	**1,514**	**3,323**	**19,673**
NET BOOK VALUES						
At 31 December, 2006	**22,030**	**170**	**4,958**	**240**	**1,556**	**28,954**
At 31 December, 2005	22,200	238	4,906	224	1,944	29,512

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Buildings	Over the terms of the lease
Leasehold improvement	Over the term of the lease
Plant and machinery	9%
Furniture, fixtures and equipment	18% - 20%
Motor vehicles	9%

The buildings are situated in the PRC and held under medium term lease.

At 31 December 2005, the net book value of motor vehicles included an amount of HK$360,000 in respect of assets held under finance leases.

16. GOODWILL

For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit ("CGU"), which represents a subsidiary engaged in the health care products business.

The basis of the recoverable amounts of the above CGU and its major underlying assumptions are summarised below:

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecast. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecast derived from the most recent financial budget approved by management for the next three years and extrapolates cash flows for the following five years based on zero growth rate.

The rate used to discount the forecast cash flow is 7%.

17. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2006	2005
	HK$'000	HK$'000
Unlisted equity securities in Hong Kong	**1,000**	1,000
Less: Impairment loss	**(1,000)**	(1,000)
	—	—

The amount represents unlisted equity investment in Archnet Technology Limited ("Archnet"), a company incorporated in Hong Kong, which is stated at cost less impairment loss. The Group's investment represents a holding of 20% of the ordinary shares of Archnet. Archnet is not regarded as an associate of the Group because the Group is unable to appoint directors to sit on the board of Archnet and hence not in a position to exercise significant influence over its financial and operating policy decisions.

The investment has been fully impaired in prior periods.

18. INTANGIBLE ASSETS

All of the Group's technology know-hows were acquired from third parties and are amortised on a straight-line basis over their estimated useful lives of 3 to 5 years from the date on which the technology know-hows were available for use by the Group.

	Technical know-hows HK$'000
COST	
At 1 January, 2005	10,282
Exchange adjustments	199
At 31 December, 2005	10,481
Exchange adjustments	376
At 31 December, 2006	**10,857**
AMORTISATION	
At 1 January, 2005	1,992
Exchange adjustments	40
Charge for the year	3,052
At 31 December, 2005	5,084
Exchange adjustments	215
Charge for the year	1,590
At 31 December, 2006	**6,889**
CARRYING VALUES	
At 31 December, 2006	**3,968**
At 31 December, 2005	5,397

19. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise:

	2006	2005
	HK$'000	HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**2,470**	2,534
Analysed for reporting purposes as:		
Current portion	**64**	64
Non-current portion	**2,406**	2,470
	2,470	2,534

The leasehold land is amortised on a straight-line basis over the remaining term of the lease.

20. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials	**57,281**	48,352
Work in progress	**24,501**	21,189
Finished goods	**50,062**	17,515
	131,844	87,056

21. TRADE RECEIVABLES

The credit terms granted by the Group to its customers normally range from 90 days to 270 days. The aged analysis of trade receivables is as follows:

	2006	2005
	HK$'000	HK$'000
Aged:		
Current	**84,612**	100,456
1 to 30 days overdue	**—**	4,126
31 to 60 days overdue	**—**	6,347
	84,612	110,929

22. AMOUNTS DUE FROM/TO RELATED COMPANIES

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

Included in the amounts due from related companies of HK$45,148,000 were operating and trading in nature and aged less than one year.

The directors are of the opinion that the amounts due from the related companies will be recovered in full when the amounts fall due, taking into account the related companies' financial positions.

23. BANK BALANCES AND CASH

At 31 December, 2006, there were bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK$23,052,000 (2005: HK$63,777,000) and carry interest at market rates which range from 3.8% to 5.6%. RMB is not freely convertible into other currencies. Other bank balances and cash are denominated in Hong Kong dollars which carry interest at market rates which range from 4.2% to 6.3%.

24. FINANCIAL LIABILITIES

Trade payable, accruals and other payables principally comprise amounts outstanding for trade purposes and ongoing costs.

The aged analysis of trade payables is as follows:

	2006	2005
	HK$'000	HK$'000
Aged:		
Current	**9,709**	3,815
1 to 30 days overdue	**376**	41
31 days to 60 days overdue	**102**	4
61 days to 90 days overdue	**28**	38
More than 90 days overdue	**823**	457
	11,038	4,355

25. BORROWINGS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Bank borrowings — unsecured	**20,974**	36,493
Other loans — unsecured	**23,862**	—
	44,836	36,493
Borrowing comprise:		
Fixed-rate borrowings	**20,974**	30,769
Floating-rate borrowings	**23,862**	5,724
	44,836	36,493

The range of effective rate (which are also equal to contracted interest rates) on the Group's borrowing are as follows:

	2006	2005
Effective interest rate per annum:		
Fixed-rate borrowings	**6%**	6%
Floating-rate borrowings	**5.9% to 6.4%**	2.9% - 5.95%

The amounts are repayable on demand or within one year.

During the year, the bank borrowings were arranged at fixed interest rate and exposed the Group to fair value interest rate risk. The average interest rate paid for the year was 6% (2005: 6%) per annum.

Other loans represented borrowings of US$4,600,000 (equivalent to approximate HK$35,793,000) from the investor of the Preferred shares (see note 27 for details). The loans are interest bearing at London Inter Bank Offered Rate plus 2.5% per annum. During the period, US$1,533,333 (equivalent to approximate HK$11,931,000) had been settled. The remaining balance of US$3,066,666 (equivalent to approximate HK$23,862,000) will be repaid on or before 31 December, 2007 by two instalments.

26. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease:				
Within one year	—	182	—	158
In the second to fifth year inclusive	—	—	—	—
	—	182	—	158
Less: Future finance charges	—	(24)	—	—
	—	158	—	158
Less: Amount due within one year shown under current liabilities			—	(158)
Amount due after one year			—	—

The lease term was four years and the effective borrowing rate was 5.3%. Interest rate was fixed at the contract date and the lease was on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

The Group's obligations under a finance lease was secured by the lessor's charge over the leased asset.

27. PREFERRED SHARES ISSUED BY A SUBSIDIARY

At 24 December, 2005, an indirectly wholly owned subsidiary of the Company, entered into an agreement with Nederlandse Financierings-Maastschappij Voor Ontwikkelingslanden N.V. (the "Investor"), the investor of the Preferred shares, to refinance the Preferred shares by a USD loan of US$4,600,000 (equivalent to approximately HK$35,793,000) at London Inter Bank Offered Rate plus 2.5%. The transaction was completed at 15 February, 2006. Accordingly, the carrying amount of the Preferred shares amounted to HK$35,793,000 on 15 February 2006 was transferred to other loans (see note 25).

28. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January, 2005, 31 December, 2005 and 31 December, 2006	1,000,000	100,000
Issued and fully paid:		
At 1 January, 2005, 31 December, 2005	584,000	58,400
Placing of shares (note)	116,800	11,680
At 31 December, 2006	700,800	70,080

Note:

On 19 September 2006, the Company, Absolute Target Limited, a substantial shareholder of the Company ("Absolute Target"), and Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent") entered into the Top-Up Placing and Subscription Agreements (the "Agreements"). Pursuant to the Agreements, Absolute Target agreed to place, through the Placing Agent, an aggregate of 116,800,000 ordinary shares of the Company of HK$0.1 each to six independent investors at a price of HK$0.55 per share. Pursuant to the Agreements, Absolute Target conditionally agreed to subscribe for an aggregate of 116,800,000 Shares at a price of HK$0.55 per Share.

The premium on the issue of shares, amounting to approximately HK$52,560,000 was credited to the Company's share premium account.

29. SHARE OPTION SCHEME

The major terms of the share option scheme are summarised as follows:

(i) The purpose is to provide incentives to award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest ("Invested Entity").

(ii) The participants included any employee, director, supplier, customer, adviser, shareholder or joint venture partner of the Group and/or Invested Entity.

(iii) The maximum number of shares in respect of which options might be granted under the scheme must not exceed 30% of the issued share capital of the Company from time to time.

29. SHARE OPTION SCHEME (continued)

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options) under any option granted to the same participant under the scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors and provided in the offer of grant of option.

(vi) The exercise period of an option granted must not exceed a period of 5 years commencing on the date of grant.

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the share option scheme is effective for 10 years from the date of adoption until 29 May, 2013.

No options pursuant to the share option scheme were granted for both years nor outstanding as at the balance sheet dates.

30. CAPITAL COMMITMENTS

	2006 **HK$'000**	2005 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of intangible assets	**259**	1,623

31. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	2006 **HK$'000**	2005 HK$'000
Within one year	**120**	—

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for one year and rentals are fixed for one year.

The Group as lessor

Property rental income earned during the year was approximately HK$234,000 (2005: HK$231,000). The property held has committed the tenant for an average term of one year. At the balance sheet date, the Group had contracted with the tenant for the following future minimum lease payments:

	2006 **HK$'000**	2005 HK$'000
Within one year	**219**	231
In the second year	—	210
	219	441

32. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The contributions are charged to the income statement as incurred.

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 18% to 22% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

33. RELATED PARTY TRANSACTIONS

During the year, the Group supplied merchandise amounting to HK$102,719,000 (2005: HK$46,092,000) to Beijing SBT, in which certain directors of the Company have interests in by virtue of their shareholding in the ultimate holding company of Beijing SBT and are directors of Beijing SBT.

The Group received management fee of approximately HK$980,000 (2005: HK$980,000) from SBT Holdings, in which certain directors of the Company have interests in by virtue of their shareholding in the ultimate holding company of SBT and are directors of SBT. The transactions were carried out in accordance with the terms of agreement entered into between the parties.

The Group received rental income of approximately HK$234,000 (2005: HK$231,000) from Shenyang SBT, in which certain directors of the Company have interests in by virtue of their shareholding in the ultimate holding company of Shenyang SBT and are directors of Shenyang SBT. The charge is based on the areas occupied by Shenyang SBT pursuant to the agreement entered into between the parties.

The Group is managed by the Directors and details of the Directors' emoluments are disclosed in note 11.

34. POST BALANCE SHEET EVENTS

On 13 February 2007, Wealthy Well entered into an agreement with AAI, in which Wealthy Well conditionally agreed to acquire from AAI the entire existing issued shares of Best Partners at the total consideration of RMB1,120,000,000 (subject to adjustment) to be paid to AAI by the issue of a convertible note.

Mr. Wong Yin Sen and Mr. Hon Lik are interested in (i) 46.25% and 42.50% of the issued share capital of Absolute Target Limited which is the ultimate holding company of the Company, and (ii) 52.11% and 47.89% of the issued share capital of Dragon Concept, a company beneficially interested in approximately 60.50% of the issued share capital of the Vendor.

35. PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company indirectly %	directly %	Principal activities
Chenlong Group Limited	BVI/ Hong Kong	US$20,000	—	100	Investment holding
集安新華龍參業有限公司 Jian New Wellon Ginseng Industry Co., Ltd. ("Jian New Wellon")	PRC	RMB7,000,000 (note a)	100	—	Purchase and sales of raw ginseng
新華龍有限公司 New Wellon Limited	Hong Kong	HK$10,000	100	—	Investment holding
瀋陽辰龍保齡參有限公司 Shenyang Chenlong	PRC	US$3,705,000 (note b)	100	—	Processing and sales of a series of health care products
瀋陽金龍保健品有限公司 Shenyang Jinlong	PRC	US$1,220,000 (note c)	100	—	Processing and sales of ginseng and related products
瀋陽金龍藥業有限公司 Jinlong Pharmaceutical	PRC	HK$20,000,000 (note d)	100	—	Processing and sales of Pharmaceutical products and production of electronics cigarettes components
Success Century Holding Limited ("Success Century")	BVI	US$50,000	100	—	Investment holding

None of the subsidiaries had issued any debt securities at the end of the year.

35. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Jian New Wellon is a wholly foreign-owned enterprise for a period of 15 years commencing from 22 June, 1998.

(b) Shenyang Chenlong is a wholly foreign-owned enterprise for a period of 15 years commencing from 7 May, 1999.

(c) Shenyang Jinlong is a sino-foreign equity joint venture for a period of 15 years commencing from 27 November, 1992 established under a joint venture agreement with another PRC party who is the former shareholder of Success Century holding the remaining 20% shareholding of Shenyang Jinlong.

Pursuant to an agreement made between the Group and the former shareholder of Success Century during the year 2004, the remaining 20% shareholding of Shenyang Jinlong was transferred to the Group by way of acquisition of Success Century and Shenyang Jinlong became the wholly foreign owned enterprise.

(d) Jinlong Pharmaceutical is a wholly foreign-owned enterprise for a period of 15 years commencing from 8 June, 2001.