

Ordinary resolutions were passed on the annual general meeting of the Company on 8 August 2002, approving the adoption of a share option scheme (the "Scheme") by the Company. The Scheme, with its broadened basis of participation, and absence of performance target to be achieved will enable the Group to reward the employees, the Directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group.

No share option was granted under the Scheme.

## OUTLOOK

### New Plant for Oral Insulin

Looking ahead, we will continue our focus in the development, manufacturing and marketing of our oral insulin product. On 19 October 2006, agreements have been signed with an independent third party for the acquisition and construction of a new manufacturing plant in the PRC for the oral insulin product for a consideration of approximately RMB40 million and a fee calculated at RMB6 cents for each capsule of Oral Insulin Enteric-Coated Soft Capsules produced during the Initial Operating Period. The new factory will be equipped with production facilities of annual production capacity of at least 1.5 billion capsules, with a capacity expandable to 3 billion capsules, in compliance with the standards and requirements of certificate under the Guidelines on Good Manufacturing Practices for Pharmaceuticals ("GMP") (藥品生產質量管理規範).

The investment cost for constructing a pharmaceutical manufacturing plant for the production of a new medicine can be significant. The recoverability of such investment cost is also not assured as it is possible that the Group may not be able to obtain all necessary approvals for the production and sales of the new medicine within the anticipated time frame, or the pharmaceutical manufacturing plant to be constructed does not comply with the requirements under the GMP and other applicable standards and requirements under the PRC laws. These standards and requirements may be changed from time to time and it can be costly to comply with any subsequent modification of, additions to or new restrictions to, these compliance standards or requirements.

Sea Ascent is an investment holding company. Its sole shareholder, Mr. Wang Wei, was principally engaged in the investments of real properties and health care products in Jiangsu, the PRC. He has extensive experience in investment at Pi Zhou City, Jiangsu, the PRC, where the pharmaceutical manufacturing plant is proposed to be established. The Directors consider that the new arrangements can successfully diversify the risk of such investment cost to Sea Ascent on one hand, and can ensure that the Oral Insulin Enteric-Coated Soft Capsules can be launched to the market in a timely and efficient manner. The management considered that this mode of cooperation is prudent and to the best benefit of shareholders of the Group.

### **New Products In the Pipeline**

The ability of research, development and introduction of quality and innovative pharmaceutical products has set a solid ground to maintain our distinguished market position. In our last annual report, we have announced that there are several new products in the pipeline pending for SFDA approvals. These products are:

- (i) Lu Ling Huang Capsule, expecting to have the new drug licence in a few months; and
- (ii) Trimetazidine Dihydrochloride Tablet, the new drug licence has been issued and we are in the preparation of manufacturing and launching this product. Trimetazidine Dihydrochloride Tablet is used for prophylactic treatment for angina pectoris, auxiliary treatment for dizziness and tinnitus. It is believed that the demand for the product will be great in the PRC market.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the six months ended 30 September 2006, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

### **AUDIT COMMITTEE**

The Audit Committee, which comprises three INEDs with terms of reference in compliance with Code provision C3.3, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results. The Directors are also in the progress of reviewing the internal control systems of the Group.