1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the main board on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines; and the investment in sino-foreign equity joint ventures, whose principal activities are the manufacture, distribution and sale of pharmaceutical products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for periodic remeasurement of buildings as further explained in note 15. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December, 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. The method involves the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as Consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKAS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK (IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new and revised HKFRSs has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the company's financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January, 2009. The standard requires disclosures about the information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HK(IFRIC) – Int 8, HK(IFRIC) – Int 9, HK(IFRIC) – Int 10, HK(IFRIC) – Int 11 and HK(IFRIC) – Int 12 shall be applied for annual periods beginning on or after 1 March, 2006, 1 June, 2006, 1 November, 2006, 1 March, 2007 and 1 January, 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The Company's interests in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (continued)

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in the prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4% – 5%
Leasehold improvements	5% – 20%
Plant and machinery	5% – 9%
Motor vehicles	9% – 18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (continued)

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, whether allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment; or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the 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). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible bonds

Convertible bonds are bifurcated into a debt component and an embedded derivative component.

The debt component is initially recognised at fair value, determined by discounting the future contractual cash flows at the prevailing market interest rate for a similar non-convertible borrowing. The debt component is subsequently measured at amortised cost using the effective interest rate method until extinguished on conversion or redemption.

The embedded derivative is initially recognised at fair value determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of debt component at initial recognition. The embedded derivative is subsequently measured at fair value with reference to the market value of the share price of the Company, after taking into account the fair value of the debt component. Changes in fair value of the embedded derivative component in the convertible bonds are charged/credited to the income statement, net of income tax effects, for the period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets 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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November, 2002 that had not vested on 1 January, 2006 and to those granted on or after 1 January, 2006.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20-23% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries in which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries level. The Group considers that the deferred tax assets are recognised to the extent that it is probable that subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary differences. The carrying amount of deferred tax assets at 31 December, 2006 was HK$4,244,000 (2005: HK$3,647,000). More details are given in note 31.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December, 2006 was HK$42,031,000 (2005: HK$41,948,000). More details are given in note 17.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's customers and operations are based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. During the year, the directors reviewed the segment information disclosure, and information on biopharmaceutical, modernised Chinese and chemical medicines were further analysed.

Summary details of the business segments are as follows:

(a) the biopharmaceutical medicines segment comprises the manufacture, sale and distribution of the biopharmaceutical medicine products;

(b) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine products; and chemical medicine products; and

(c) the investment segment is engaged in long term investment.

4. SEGMENT INFORMATION (Continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December, 2006 and 2005.

Year ended 31 December, 2006	Continuing operations					Discontinued operation	
	Modernised Chinese medicines HK$'000	Investment HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000	Biopharma-ceutical medicines HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	723,606	–	5,334	–	728,940	–	728,940
Dividend income	–	5,712	–	–	5,712	–	5,712
Total	723,606	5,712	5,334	–	734,652	–	734,652
Segment results	197,288	(47,782)	(3,164)	–	146,342	–	146,342
Interest and unallocated gains					91,486	–	91,486
Share of profit of an associate					704	–	704
Unallocated expenses					(31,254)	–	(31,254)
Finance costs					(2,205)	–	(2,205)
Profit before tax					205,073	–	205,073
Tax					(22,106)	–	(22,106)
Profit for the year					182,967	–	182,967
Assets and liabilities							
Segment assets	571,722	1,590,619	43,744	–	2,206,085	–	2,206,085
Interest in an associate	–	4,781	–	–	4,781	–	4,781
Other unallocated assets					4,244	–	4,244
Total assets					2,215,110	–	2,215,110
Segment liabilities	148,790	17,173	2,546	–	168,509	–	168,509
Other unallocated liabilities					15,102	–	15,102
Total liabilities					183,611	–	183,611
Other segment information:							
Depreciation and amortisation	20,057	1,486	795	–	22,338	–	22,338
Capital expenditure	45,551	5,319	28,253	–	79,123	–	79,123
Other non-cash expenses	100	–	–	–	100	–	100

4. SEGMENT INFORMATION (continued)

Business segments (Continued)

Year ended 31 December, 2005	Continuing operations: Modernised Chinese medicines HK$'000	Continuing operations: Investment HK$'000	Continuing operations: Others HK$'000	Continuing operations: Eliminations HK$'000	Continuing operations: Total HK$'000	Discontinued operation: Biopharma-ceutical medicines HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	744,378	–	4,175	–	748,553	479,838	1,228,391
Dividend income	–	7,520	–	–	7,520	–	7,520
Total	744,378	7,520	4,175	–	756,073	479,838	1,235,911
Segment results	190,963	7,686	(896)	–	197,753	173,650	371,403
Interest and unallocated gains					28,599	4,431	33,030
Unallocated expenses					(44,797)	–	(44,797)
Fair value adjustment to embedded derivative of convertible bonds					(66,315)	–	(66,315)
Finance costs					(2,729)	(732)	(3,461)
Profit before tax					112,511	177,349	289,860
Tax					(18,311)	(25,136)	(43,447)
Profit for the year					94,200	152,213	246,413
Assets and liabilities							
Segment assets	551,947	1,579,514	5,114	–	2,136,575	–	2,136,575
Other unallocated assets					3,647	–	3,647
Total assets					2,140,222	–	2,140,222
Segment liabilities	145,981	8,398	1,049	–	155,428	–	155,428
Other unallocated liabilities					9,550	–	9,550
Total liabilities					164,978	–	164,978
Other segment information:							
Depreciation and amortisation	19,011	1,185	672	–	20,868	10,838	31,706
Capital expenditure	34,439	322	1,385	–	36,146	41,160	77,306
Other non-cash expenses	2,166	2	–	–	2,168	145	2,313

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and dividend income from an unlisted investment.

An analysis of revenue, other income and gains is as follows:

	Note	2006 HK$'000	2005 HK$'000
Sale of goods		**728,940**	1,228,391
Dividend income		**5,712**	7,520
		734,652	1,235,911
Attributable to continuing operations reported in the consolidated income statement		**734,652**	756,073
Attributable to a discontinued operation	12	**–**	479,838
		734,652	1,235,911
Other income			
Bank interest income		**80,648**	21,358
Government grants		**3,347**	6,671
Sale of scrap materials		**2,715**	1,930
Others		**4,581**	2,867
		91,291	32,826
Attributable to continuing operations		**91,291**	28,395
Attributable to a discontinued operation		**–**	4,431
		91,291	32,826
Gains			
Gain on disposal of property, plant and equipment		**73**	204
Revaluation surplus of property, plant and equipment		**122**	–
		195	204
Attributable to continuing operations		**195**	204
Attributable to a discontinued operation		**–**	–
		195	204
Total other income and gains			
Attributable to continuing operations reported in the consolidated income statement		**91,486**	28,599
Attributable to a discontinued operation		**–**	4,431
		91,486	33,030

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000
Attributable to continuing operations reported in the consolidated income statement:			
Cost of sales		**138,788**	139,418
Depreciation	15/16	**21,567**	20,153
Amortisation of intangible assets*	18	**771**	715
Research and development costs		**27,183**	46,661
		188,309	206,947
Minimum lease payments under operating leases:			
Land and buildings		**3,752**	2,931
		3,752	2,931
Auditors' remuneration		**1,031**	937
Employee benefits expense (including directors' remuneration (note 8)):			
Wages and salaries		**123,120**	136,942
Pension scheme contributions **		**5,719**	17,370
		128,839	154,312
Provision for bad and doubtful debts		**415**	1,134
Foreign exchange differences, net		**(1,308)**	(1,164)

6. PROFIT BEFORE TAX (Continued)

	Notes	2006 HK$'000	2005 HK$'000
Attributable to a discontinued operation:			
Cost of sales		–	80,126
Depreciation	15/16	–	9,958
Amortisation of intangible assets*	18	–	880
Research and development costs		–	5,668
		–	96,632
Minimum lease payments under operating leases:			
Land and buildings		–	4,583
Employee benefits expense (including directors' remuneration (note 8)):			
Wages and salaries		–	41,396
Pension scheme contributions **		–	11,447
		–	52,843
Provision for bad and doubtful debts		–	–
Foreign exchange differences, net		–	(119)

Notes:

* The amortisation of patents and licences and deferred development costs for the year are included in "Cost of sales" and "Other operating expenses" on the face of the consolidated income statement.

** During the year, certain of the subsidiaries in Mainland China were members of a pension contribution scheme managed by the respective local governments. Contributions made during the year were based on 20%-23% (2005: 20%-23%) of the employees' salaries and were charged to the consolidated income statement as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December, 2006 (2005: 5%).

7. (a) FINANCE COSTS

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Interest on bank loans wholly repaid during the year		**2,205**	2,996
Interest on the debt component of convertible bonds	30	**–**	465
Total interest		**2,205**	3,461
Attributable to continuing operations reported in the consolidated income statement		**2,205**	2,729
Attributable to a discontinued operation (note 12)		**–**	732
		2,205	3,461

(b) FAIR VALUE ADJUSTMENT TO EMBEDDED DERIVATIVE OF CONVERTIBLE BONDS

This solely represents the changes in the fair value to the embedded derivative component of the convertible bonds, which is charged to the consolidated income statement as a result of the first year adoption of HKAS 39 in 2005. As the adoption of HKAS 39 is applied prospectively from 1 January, 2005, the fair value of the embedded derivative component was determined by reference to the respective market value of the Company's share price as at 1 January, 2005 and the date of conversion of the convertible bonds on 13 April, 2005. The fair value adjustment to the embedded derivative of convertible bonds was one-off and non-cash in nature and the Company's convertible bonds were fully converted into the Company's shares by April 2005.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Fees	**350**	288
Other emoluments:		
Salaries, allowances and benefits in kind	**8,287**	7,013
Pension scheme contributions	**96**	74
Discretionary bonuses	**1,330**	10,897
	9,713	17,984
	10,063	18,272

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 **HK$'000**	2005 HK$'000
Ms. Zheng Qun, Grace	**–**	110
Mr. Lu Zhengfei	**150**	16
Mr. Li Dakui	**100**	65
Ms. Li Jun	**100**	97
	350	288

Ms. Zheng Qun, Grace resigned as an independent non-executive director on 22 November, 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) Executive directors and a non-executive director

	Fees **HK$'000**	**Salaries, allowances and benefits in kind** **HK$'000**	**Discretionary bonuses** **HK$'000**	**Employee share option benefits** **HK$'000**	**Pension scheme contributions** **HK$'000**	**Total remuneration** **HK$'000**
2006						
Executive directors:						
Mr. Tse Ping	–	3,600	–	–	12	3,612
Mr. Tao Huiqi	–	569	450	–	10	1,029
Mr. Wang Jinyu	–	300	–	–	12	312
Mr. He Huiyu	–	1,008	–	–	–	1,008
Ms. Cheng Cheung Ling	–	1,040	–	–	12	1,052
Ms. Zhao Yanping	–	600	300	–	19	919
Mr. Tse Hsin	–	910	–	–	12	922
Mr. Zhang Baowen	–	260	580	–	19	859
	–	8,287	1,330	–	96	9,713
Non-executive director:						
Ms. Josephine Price	–	–	–	–	–	–
	–	8,287	1,330	–	96	9,713

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005						
Executive directors:						
Mr. Tse Ping	–	3,000	5,000	–	12	8,012
Mr. Tao Huiqi	–	384	534	–	10	928
Mr. Wang Jinyu	–	276	–	–	12	288
Mr. He Huiyu	–	1,008	–	–	–	1,008
Ms. Cheng Cheung Ling	–	900	425	–	12	1,337
Ms. Zhao Yanping	–	600	4,300	–	16	4,916
Mr. Tse Hsin	–	845	638	–	12	1,495
	–	7,013	10,897	–	74	17,984
Non-executive director:						
Ms. Josephine Price	–	–	–	–	–	–
	–	7,013	10,897	–	74	17,984

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2005: five) directors, details of whose remuneration are set out in note 8 above.

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	2006 HK$'000	2005 HK$'000
Group:		
Current – Mainland China income tax	**12,258**	11,708
Deferred tax (note 31)	**1,459**	(1,152)
	13,717	10,556
Tax attributable to a jointly-controlled entity	**8,389**	7,755
Total tax charge for the year	**22,106**	18,311

Pursuant to the Income Tax Law of Mainland China Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries qualify as "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% to 24% applies.

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), one of the Group's principal operating subsidiaries, is exempt from corporate income tax for the two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% exemption from the full corporate income tax rate for the succeeding three years (the "Tax Exemption"). The Tax Exemption expired on 31 December, 2002. As JCTT qualifies as an "Foreign Invested Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. This extended tax exemption period expired on 31 December, 2005. Consequently, JCTT is subject to a corporate income tax rate of 15% in 2006.

10. TAX (Continued)

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. NJCTT is entitled to the preferential corporate income tax rate of 15% as it is located in the Nanjing technology development area. NJCTT is entitled to full exemption from corporate income tax for the year ended 31 December, 2006.

Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide"), a jointly-controlled entity of the Group, is also entitled to the Tax Exemption. Beijing Tide's statutory corporate income tax rate is 24%. As Beijing Tide is also entitled to 50% exemption for its corporate income tax, its corporate income tax rate was 12% for the year ended 31 December, 2004. The Tax Exemption expired on 31 December, 2004. As Beijing Tide qualifies as an "Foreign Invested Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, Beijing Tide is subject to a corporate income tax rate of 12% from 2005 to 2007.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax (including profit from a discontinued operation)	**205,073**	1,696,051
Tax at the statutory tax rate of 33%	**67,674**	559,697
Less: preferential tax rate reduction	**(36,913)**	(305,289)
Income not subject to tax	**(15,981)**	(212,057)
Expenses not deductible for tax	**4,284**	32,481
Tax losses of subsidiaries	**7,950**	786
Tax exemptions/deductions	**(4,908)**	(32,171)
Tax charge at the Group's effective rate	**22,106**	43,447
Tax charge attributable to a discontinued operation (note 12)	**–**	(25,136)
Tax charge attributable to continuing operations reported in the consolidated income statement	**22,106**	18,311

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December, 2006 dealt with in the financial statements of the Company, was HK$140,780,000 (2005: HK$1,614,149,000 after the fair value adjustment to embedded derivative of convertible bonds of HK$66,315,000 (note 7(b))) (note 34(b)).

12. DISCONTINUED OPERATION

	2006 HK$'000	2005 HK$'000
Profit of the year from a discontinued operation	–	152,213
Gain on disposal of subsidiaries	–	1,406,191
	–	1,558,404

On 2 July, 2005, the Company entered into a sale and purchase agreement ("Sale and Purchase Agreement") with Bausch & Lomb Incorporated ("Bausch & Lomb") in relation to the disposal of the Company's entire equity interests in Sino Concept Technology Limited ("Sino Concept"), the sole assets of which are the 55% equity interests in the registered capital of each of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP") (hereinafter referred to as the "Sino Concept group" or the "disposed subsidiaries") at a consideration of US$200,000,000 (approximately HK$1,560 million). The Sino Concept group was principally engaged in the research, development, production and sale in Mainland China of a series of biopharmaceutical products for the medical treatment of ophthalmic conditions and osteoarthritis and for external use to treat skin disease and is a separate business segment that is part of the Mainland China operation of the Group.

The directors consider that the disposal represents a good opportunity for the Company to realise its investment in Sino Concept group at a satisfactory price and are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the shareholders as a whole. The Group has decided to cease its manufacture, distribution and sales business although it is profit making because the Group expects to explore appropriate investment opportunities in the future and additional general working capital for the Group and, if the directors so determine, finance the payment of any special dividend which may be declared. The disposal of the Sino Concept group was completed on 26 September, 2005. Details of the disposed subsidiaries were set out in the Company's announcements dated on 6 July, 2005 and 26 July, 2005.

The results of the Sino Concept group is presented below:

	2005 HK$'000
Revenue	479,838
Expenses	(301,757)
Finance costs	(732)
Profit of the discontinued operation	177,349
Profit before tax from a discontinued operation	177,349
Tax related to pre-tax profit	(25,136)
Profit for the year from a discontinued operation	152,213

12. DISCONTINUED OPERATION (Continued)

Net assets of the disposed subsidiaries on the completion date were as follows:

	Notes	2005 HK$'000
Net assets disposed of:		
Property, plant and equipment	15	136,161
Prepaid land lease payments	16	18,124
Other intangible assets	18	17,329
Deferred tax assets	31	5,469
Cash and cash equivalents		45,090
Inventories		30,925
Trade receivables		94,528
Due from a related party		134
Prepayments, deposits and other receivables		38,175
Trade payables		(8,563)
Other payables and accruals		(129,763)
Tax payable		(5,948)
Due to a related party		(1,662)
Deferred tax liabilities	31	(255)
Minority interests		(106,226)
		133,518
Expenses in relation to the disposal		20,291
Gain on disposal of subsidiaries		1,406,191
		1,560,000
Satisfied by:		
Cash consideration		1,560,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposed subsidiaries is as follows:

	2005 HK$'000
Cash consideration	1,560,000
Cash and bank balances disposed of	(45,090)
Net inflow of cash and cash equivalents in respect of the disposed subsidiaries	1,514,910

12. DISCONTINUED OPERATION (Continued)

The net cash flows incurred by the disposed subsidiaries are as follows:

	2005 HK$'000
Operating activities	119,933
Investing activities	(40,269)
Financing activities	(145,519)
Net cash inflow	(65,855)
Earnings per share:	
Basic, from the discontinued operation	HK67.46 cents
Diluted, from the discontinued operation	HK67.46 cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2005
Net profit attributable to ordinary equity holders of the parent from the discontinued operation	HK$1,490,285,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,209,126,245
Weighted average number of ordinary shares used in the diluted earnings per share calculation	2,209,126,245

13. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim – HK$0.03 (2005: HK$0.05) per ordinary share		
– paid out from profit after tax	**67,920**	73,207
– paid out from contributed surplus	**–**	30,186
Special dividend – nil (2005: HK$0.05) per ordinary share	**–**	113,199
Proposed final – HK$0.02 (2005: HK$0.015) per ordinary share	**45,279**	33,959
	113,199	250,551

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent for the year of HK$141,172,000 (2005: HK$1,532,929,000), and the weighted average number of 2,263,968,736 ordinary shares in issue during the year (2005: 2,209,126,245, as adjusted to reflect the exercises of share options, bonus issues and conversion of convertible bonds).

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share (after the fair value adjustment to embedded derivative of convertible bonds in 2005) are based on:

	2006	2005
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation: (after the fair value adjustment to embedded derivative of convertible bonds as set out in note 7(b))		
From continuing operations (after fair value adjustment to embedded derivative of convertible bonds)	**141,172**	42,644
From a discontinued operation	**–**	1,490,285
Profit attributable to ordinary equity holders of the parent	**141,172**	1,532,929
Attributable to:		
Continuing operations	**141,172**	42,644
Discontinued operation	**–**	1,490,285
	141,172	1,532,929

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**2,263,968,736**	2,209,126,245

There were no diluting events during the years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2006							
Cost or valuation:							
At 31 December, 2005 and at 1 January, 2006	84,502	11,005	108,459	17,372	31,760	14,738	267,836
Additions	1,603	-	456	5,043	5,626	41,127	53,855
Surplus on revaluation	189	-	-	-	-	-	189
Disposals	-	(3,833)	(575)	(1,086)	(721)	-	(6,215)
Transfers	8,708	-	9,491	531	764	(19,494)	-
Exchange realignment	2,668	141	4,116	547	1,103	550	9,125
At 31 December, 2006	97,670	7,313	121,947	22,407	38,532	36,921	324,790
Analysis of cost or valuation:							
At cost	-	7,313	121,947	22,407	38,532	36,921	227,120
At valuation	97,670	-	-	-	-	-	97,670
	97,670	7,313	121,947	22,407	38,532	36,921	324,790
Accumulated depreciation:							
At 31 December, 2005 and at 1 January, 2006	-	7,298	36,931	8,778	16,167	-	69,174
Additions	4,523	60	8,589	3,478	4,617	-	21,267
Disposal	-	(180)	(394)	(748)	(461)	-	(1,783)
Write back on revaluation	(4,627)	-	-	-	-	-	(4,627)
Exchange realignment	104	135	1,577	322	666	-	2,804
At 31 December, 2006	-	7,313	46,703	11,830	20,989	-	86,835
Net book value:							
At 31 December, 2006	97,670	-	75,244	10,577	17,543	36,921	237,955
At 31 December, 2005	84,502	3,707	71,528	8,594	15,593	14,738	198,662

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2005							
Cost or valuation:							
At 31 December, 2004 and at 1 January, 2005	74,658	23,574	114,930	21,210	34,303	109,089	377,764
Additions	3,063	47	11,149	2,504	6,272	47,462	70,497
Surplus on revaluation	2,532	–	–	–	–	–	2,532
Disposal of a discontinued operation (note 12)	(45,466)	(12,950)	(92,236)	(6,351)	(11,801)	(14,530)	(183,334)
Disposals	(2,598)	–	(3,959)	(513)	(583)	–	(7,653)
Transfers	50,451	–	76,126	135	2,867	(129,579)	–
Exchange realignment	1,862	334	2,449	387	702	2,296	8,030
At 31 December, 2005	84,502	11,005	108,459	17,372	31,760	14,738	267,836
Analysis of cost or valuation:							
At cost	–	11,005	108,459	17,372	31,760	14,738	183,334
At valuation	84,502	–	–	–	–	–	84,502
	84,502	11,005	108,459	17,372	31,760	14,738	267,836
Accumulated depreciation:							
At 31 December, 2004 and at 1 January, 2005	202	12,971	50,305	9,759	17,277	–	90,514
Provided during the year							
– Attributable to continuing operations	3,825	62	9,218	2,831	3,947	–	19,883
– Attributable to a discontinued operation	1,135	2,641	5,021	551	153	–	9,501
Written back on revaluation	(1,685)	–	–	–	–	–	(1,685)
Disposal of a discontinued operation (note 12)	(2,894)	(8,567)	(26,223)	(4,319)	(5,170)	–	(47,173)
Disposals	(1,092)	–	(2,563)	(252)	(445)	–	(4,352)
Exchange realignment	509	191	1,173	208	405	–	2,486
At 31 December, 2005	–	7,298	36,931	8,778	16,167	–	69,174
Net book value:							
At 31 December, 2005	84,502	3,707	71,528	8,594	15,593	14,738	198,662
At 31 December, 2004	74,456	10,603	64,625	11,451	17,026	109,089	287,250

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2006				
Cost:				
At beginning of year	3,414	1,929	–	5,343
Additions	3,541	366	1,395	5,302
Exchange realignment	26	15	–	41
At 31 December, 2006	6,981	2,310	1,395	10,686
Accumulated depreciation:				
At beginning of year	2,055	883	–	2,938
Provided during the year	1,106	380	–	1,486
Exchange realignment	17	3	–	20
At 31 December, 2006	3,178	1,266	–	4,444
Net book value:				
At 31 December, 2006	3,803	1,044	1,395	6,242
At 31 December, 2005	1,359	1,046	–	2,405

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Total HK$'000
31 December, 2005			
Cost:			
At beginning of year	3,408	1,609	5,017
Additions	–	321	321
Disposal	–	(4)	(4)
Exchange realignment	6	3	9
At 31 December, 2005	3,414	1,929	5,343
Accumulated depreciation:			
At beginning of year	1,250	501	1,751
Provided during the year	802	383	1,185
Disposal	–	(2)	(2)
Exchange realignment	3	1	4
At 31 December, 2005	2,055	883	2,938
Net book value:			
At 31 December, 2005	1,359	1,046	2,405
At 31 December, 2004	2,158	1,108	3,266

The Group's buildings are all situated in the PRC and are held under long term leases.

The Group's buildings of all subsidiaries as at 31 December, 2006 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK$97,670,000 (2005: HK$84,502,000) based on their existing use. The Group's share in the jointly-controlled entity's leasehold buildings amounted to HK$11,294,000 (2005: HK$11,414,000) were revalued as at the balance sheet date. The revaluation resulted in a surplus of HK$5,504,000 (2005: HK$7,281,000) and a deficit of HK$688,000 (2005: HK$3,064,000). The Group has credited HK$3,036,000 (2005: a credit of HK$2,576,000) to the revaluation reserve and credited HK$122,000 (2005: a charge of HK$122,000) to the income statement, respectively, in the current year.

Had the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$76,774,000 (2005: HK$68,422,000).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**7,692**	25,776
Additions during the year	**9,143**	233
Recognised during the year		
– Attributable to continuing operations	**(300)**	(270)
– Attributable to a discontinued operation	**–**	(457)
Disposal of subsidiaries (note 12)	**–**	(18,124)
Exchange realignment	**337**	534
Carrying amount at 31 December	**16,872**	7,692
Current portion included in prepayments, deposits and other receivables	**(331)**	(254)
Non-current portion	**16,541**	7,438

The prepaid land lease payments for land use rights is held under long term leases and is situated in Mainland China.

As at 31 December, 2006, the Group had not obtained land use rights certificate for certain land use rights with aggregate net book value of approximately HK$9,112,000 (2005: nil).

17. GOODWILL

Group

	HK$'000
31 December, 2006	
Cost and carrying amount at 1 January, 2006	**41,948**
Exchange realignment	**83**
Cost and carrying amount at 31 December, 2006	**42,031**

	HK$'000
31 December, 2005	
Cost at 1 January, 2005	41,900
Exchange realignment	48
Cost and carrying amount at 31 December, 2005	41,948

17. GOODWILL (Continued)

Impairment testing of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill of the Group is related to two different cash generating units, namely Beijing Tide, a jointly-controlled entity and JCTT, a subsidiary of the Group. Over 90% of the carrying amount of goodwill arose from the acquisition of equity interests in Beijing Tide in the previous years.

The recoverable amount of the goodwill attributable to the acquisition of equity interests in Beijing Tide, which belongs to the cash generating units of Chinese modernised medicine and chemical medicines and is a reportable segment, is determined from a value in use calculation using cash flow forecasts based on financial budgets. 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. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to Beijing Tide. The growth rates are based on industry growth forecasts. 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 forecasts derived from the most recent financial budgets approved by the directors for 2007 and extrapolates cash flows for the following five years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows from Beijing Tide is based on the prevailing bank's borrowing rate offered by major financial institutions in Mainland China.

Based on the above, the directors consider that there is no impairment in goodwill.

18. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December, 2006:			
Cost			
At beginning of the year	**4,854**	**–**	**4,854**
Additions	**–**	**16,125**	**16,125**
Exchange realignment	**260**	**–**	**260**
At 31 December, 2006	**5,114**	**16,125**	**21,239**
Accumulated amortisation			
At beginning of the year	**1,052**	**–**	**1,052**
Provided during the year	**771**	**–**	**771**
Exchange realignment	**73**	**–**	**73**
At 31 December, 2006	**1,896**	**–**	**1,896**
Net carrying amount	**3,218**	**16,125**	**19,343**
31 December, 2005:			
Cost			
At beginning of the year	10,503	7,281	17,784
Additions	3,843	2,733	6,576
Exchange realignment	258	145	403
Disposal of subsidiaries (note 12)	(9,750)	(10,159)	(19,909)
At 31 December, 2005	4,854	–	4,854
Accumulated amortisation			
At beginning of the year	1,971	–	1,971
Provided during the year			
– Attributable to continuing operations	715	–	715
– Attributable to a discontinued operation	880	–	880
Exchange realignment	66	–	66
Disposal of subsidiaries (note 12)	(2,580)	–	(2,580)
At 31 December, 2005	1,052	–	1,052
Net carrying amount	3,802	–	3,802

19. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**101,519**	101,513
Due from subsidiaries	**165,154**	84,406
Due to subsidiaries	**(56,621)**	(8,337)
	210,052	177,582
Impairment during the year	**–**	–
	210,052	177,582

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amount of these amount due from/(to) approximates to the fair values.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGC")	Mainland China	US$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US$2 Ordinary	100	–	Investment holding
Chia Tai Healthcare (Holdings) Limited	British Virgin Islands/ Mainland China	US$10 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited ("CTL")	British Virgin Islands/ Mainland China	US$3 Ordinary	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK$100 Ordinary	–	51	Research and development of pharmaceutical products

19. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (continued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT")	Mainland China	RMB99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited ("Magnificent")	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	60	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	Mainland China	US$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US$1 Ordinary	100	–	Investment holding
Talent Forward Limited	British Virgin Islands/ Mainland China	US$1 Ordinary	100	–	Investment holding
Lianyungang Chia Tai Tianyi Medicine Co., Ltd. ("CT Tianyi")	Mainland China	US$970,000 Ordinary	–	60	Distribution of pharmaceutical products
Chia Tai Hualing Technology Limited ("Chia Tai Hualing")	Hong Kong	HK$1 Ordinary	–	60	Investment holding
Chia Tai Refined Chemical Industry Limited ("CTRC")	Hong Kong	HK$2 Ordinary	100	–	Investment holding
Evon Industries Ltd.	Hong Kong	HK$2 Ordinary	100	–	Property holding
Sino Biopharmaceutical (Tianjin) Co., Ltd.	Hong Kong	HK$1 Ordinary	–	100	Investment holding

19. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (continued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd.	Mainland China	US$5,000,000 Ordinary	–	60	Manufacture and sale of raw drug

On 4 February, 2006, Magnificent established a wholly-owned subsidiary, Chia Tai Hualing.

On 31 March, 2006, Sino Biopharmaceutical Limited acquired 100% equity interests in Evon Industries Ltd.

On 25 July, 2006, Chia Tai Hualing established a joint venture company, Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd., with JCTT.

On 1 August, 2006, Sino Biopharmaceutical Limited acquired 100% equity interests in CTRC.

On 26 August, 2006, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Sino Biopharmaceutical (Tianjin) Co., Ltd.

On 30 August, 2006, the Company, through its wholly-owned subsidiary, CTRC, entered into the joint venture agreement with Shaanxi Coal Chemical Industry Limited, Shaanxi Province Investment Group Limited and Shaanxi New Coal Chemical Science and Technology Development Co., Ltd. for the establishment of the joint venture company, namely, Shaanxi Xinxing Energy Chemical Industry Limited. Details of the formation of the joint venture company are set out in the Company's press announcement dated 1 September, 2006. As at the balance sheet date, the formation of the joint venture company is still pending the formal approval of the relevant government authorities. The Group's share of the capital contribution in the joint venture company amounted to RMB752,500,000 (approximately HK$722,400,000) (note 37).

On 27 May, 2005, CTL, a wholly-owned subsidiary of the Group, Lianyungang Runzi Consultation Centre ("Lianyungang Runzi") and Jiangsu Juxin Investment Management Corporation Limited ("Jiangsu Juxin") entered into an agreement for the formation of a joint venture, CT Tianyi, which are to be owned by CTL, Lianyuangang Runzi and Jiangsu Juxin at 60%, 24% and 16%, respectively. On 21 November, 2006, JCTT entered into an agreement to acquire the equity interests from the investors with the effect of obtaining the entire equity interests in CT Tianyi via JCTT. Details are set out in the Company's press announcement dated 22 November, 2006.

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

The interest in a jointly-controlled entity, Beijing Tide is indirectly held by the Company, in which the Group holds 35% equity interests therein.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2006 **HK$'000**	2005 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**87,890**	89,798
Non-current assets	**49,439**	46,852
Current liabilities	**(19,818)**	(29,443)
Net assets	**117,511**	107,207
Share of the jointly-controlled entity's results:		
Turnover	**113,919**	112,742
Other revenue	**1,733**	–
Total revenue	**115,652**	112,742
Total expenses	**(54,788)**	(54,330)
Tax	**(8,389)**	(7,755)
Profit after tax	**52,475**	50,657

21. INTERESTS IN AN ASSOCIATE

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	**4,781**	–
Goodwill on acquisition	**408**	–
	5,189	–

Particulars of the associate are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Qingjing Pharmaceutical Co. Ltd. *	Mainland China	RMB18,750,000	–	20	Manufacturing and sale of pharmaceutical products

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The financial statements of the above associate is coterminous with those of the Group.

On 23 December, 2005, CTGC, a subsidiary of the Group, has acquired 20% equity interests in Jiangsu Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") from Jiangsu State Agribusiness Group Corporation Limited, which has 33.5% equity interests in JCTT. Details are set out in the Company's press announcement dated 4 January, 2006.

21. INTERESTS IN AN ASSOCIATE (Continued)

The shares of net assets acquired of the associate as at the date of acquisition were as follows:

	HK$'000
Share of net assets	4,077
Goodwill on acquisition	408
Satisfied by injection of pharmaceutical technologies	4,485

The associate has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associate as extracted from its management accounts:

	2006	2005
	HK$'000	HK$'000
Assets	**71,224**	–
Liabilities	**47,319**	–
Revenues	**51,093**	–
Profit	**3,520**	–

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investments, at cost	**29,820**	29,820
Provision for impairment	**–**	–
	29,820	29,820

The amount comprised the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily from natural herbal ingredients in Mainland China.

The Group's 15% equity investments in Jiangsu Qingjiang which was newly acquired in December 2005 was reclassified to interests in an associate (note 21) in 2006 upon the Group's representation in the board of directors in Jiangsu Qingjiang.

The unlisted equity investments are stated at cost less any impairment losses, rather than at fair value. The directors considered that the fair value of unlisted equity investments cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment; or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such equity investments are stated at cost less any impairment losses.

23. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**13,482**	13,043
Work in progress	**13,259**	10,056
Finished goods	**14,005**	20,993
Spare parts and consumables	**131**	247
	40,877	44,339

24. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**105,900**	94,947
91 days to 180 days	**4,367**	5,266
Over 180 days	**2,001**	1,800
	112,268	102,013

Trade receivables approximate to their fair values due to their relatively short maturity term.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**3,234**	1,565	**–**	175
Other receivables	**15,620**	8,646	**9,288**	1,683
Prepaid expenses	**1,303**	981	**562**	625
Current portion of prepaid land lease payments	**331**	254	**–**	–
	20,488	11,446	**9,850**	2,483

Prepayments, other receivables and prepaid expenses approximate to their fair values due to their relatively short maturity term.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**122,923**	223,532	**10,997**	131,816
Time deposits	**1,561,239**	1,472,481	**1,490,075**	1,370,446
Cash and cash equivalents	**1,684,162**	1,696,013	**1,501,072**	1,502,262

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$159,223,000 (2005: HK$299,005,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

27. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**22,015**	18,944
91 days to 180 days	**1,033**	790
Over 180 days	**820**	825
	23,868	20,559

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The trade payables approximate to their fair values due to their relatively short maturity term.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances from customers	**1,594**	1,285	**–**	–
Accrued payroll and bonus	**31,509**	28,821	**5,644**	2,959
Other payables	**51,154**	60,005	**100**	196
Accrued expenses	**28,665**	21,696	**2,111**	1,167
Housing fund	**450**	372	**–**	–
Staff welfare and bonus fund	**12,961**	10,088	**7**	11
Tax payable other than profit tax	**9,916**	11,421	**105**	51
	136,249	133,688	**7,967**	4,384

Other payables are non-interest-bearing and have an average term of three months. Other payables and accruals approximate to their fair values due to their relatively short maturity term.

29. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented grants received during the year for projects which are expected to take place beyond 2007.

30. CONVERTIBLE BONDS

On 14 August, 2002, the Company entered into subscription agreements (the "Subscription Agreements") with Jian Kang Ltd. ("Jian Kang") and Super Demand Investments Limited ("Super Demand"), respectively. Pursuant to the Subscription Agreements, the Company agreed to issue to Jian Kang (the "2002 Convertible Bond") and Super Demand (the "2003 Convertible Bond") convertible bonds for principal amount of US$6,000,000 (equivalent to approximately HK$46,800,000) and US$4,000,000 (equivalent to approximately HK$31,200,000), respectively.

The 2002 Convertible Bond was issued for gross cash proceeds of approximately HK$46,800,000 on 22 October, 2002 and bears interest at 1% per annum which is payable every three months in arrears. The 2002 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2002 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2002 Convertible Bond (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 16,421,053 new shares would be issued upon the full conversion of the 2002 Convertible Bond.

30. CONVERTIBLE BONDS (Continued)

On 30 December, 2002, the Company and Super Demand agreed to defer the issuance of the 2003 Convertible Bond to 31 March, 2003 or such other date as both parties agree in writing. The 2003 Convertible Bond was issued for gross cash proceeds of approximately HK$31,200,000 on 31 March, 2003, and bears interest at 1% per annum which is payable every three months in arrears. The 2003 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2003 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2003 Convertible Bond (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 10,947,368 new shares would be issued upon the full conversion of the 2003 Convertible Bond.

Pursuant to the shareholders' approval on 27 April, 2004 for the subdivision of each issued and un-issued shares of HK$0.10 each of the Company into four subdivided shares of HK$0.025 each, the conversion price of the 2002 Convertible Bond and the 2003 Convertible Bond issued by the Company has been adjusted from HK$2.85 per share to HK$0.7125 per subdivided share accordingly.

On 24 November, 2004, Jian Kang exercised the conversion rights attached to the 2002 Convertible Bond in accordance with the terms and conditions contained in the instrument in the amount of US$4,500,000 (equivalent to approximately HK$35,100,000) of the principal amount outstanding, and were converted into 49,109,684 shares of the Company at a conversion price of HK$0.7125 per share, representing an increase in share capital of HK$1,228,000 and share premium of HK$33,763,000.

On 28 December, 2004, Super Demand had transferred its entire bonds of US$4,000,000 (equivalent to approximately HK$31,200,000) to Jian Kang and on 13 April, 2005, Jian Kang had exercised all its convertible bonds (2002 Convertible Bond and 2003 Convertible Bond) of US$5,000,000 (equivalent to approximately HK$42,900,000) at a conversion price of HK$0.7125 per share, representing an increase in share capital of HK$1,505,700 and share premium of HK$43,998,000.

Upon adoption of HKAS 39, the convertible bonds shall be classified as a debt component and the conversion option as an embedded derivative component, both as liabilities at the balance sheet dates. The effective annual interest rates of the debt component of 2002 Convertible Bond and 2003 Convertible Bond are 2.95% and 3.61%, respectively. Interest expenses on the bonds are calculated using the effective interest method by applying the effective annual interest rate of 2.95% and 3.61% to the debt component, which is the market fair value interest rate.

30. CONVERTIBLE BONDS (Continued)

The movements of the debt component and the embedded derivative component of the convertible bonds upon the adoption of HKAS 39 are as follows:

	Company			
	2006		2005	
	Debt component HK$'000	**Embedded derivative component HK$'000**	Debt component HK$'000	Embedded derivative component HK$'000
At 1 January	**–**	**–**	39,520	53,065
Conversion into ordinary shares	**–**	**–**	(39,843)	(119,380)
Interest accrued	**–**	**–**	465	–
Payment of interest	**–**	**–**	(142)	–
Fair value adjustment on embedded derivative component	**–**	**–**	–	66,315
At 31 December	**–**	**–**	–	–

31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

			2006
	Development costs HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January, 2006:	–	2,404	2,404
Charged to the income statement (note 10)	2,056	–	2,056
Charged to equity	–	769	769
Gross deferred tax liabilities At 31 December, 2006	2,056	3,173	5,229

Deferred tax assets

Group

				2006
	Provision for other receivables HK$'000	Provision for trade receivables HK$'000	Accruals HK$'000	Total HK$'000
At 1 January, 2006	99	735	2,813	3,647
Credited to the income statement (note 10)	20	48	529	597
Gross deferred tax assets At 31 December, 2006	119	783	3,342	4,244

31. DEFERRED TAX (Continued)

Deferred tax liabilities

Group	2005 Revaluation of properties HK$'000
At 1 January, 2005:	2,038
Reversal upon discontinued operation (note 12)	(255)
Charged to equity	621
Gross deferred tax liabilities At 31 December, 2005	2,404

Deferred tax assets

Group	Accruals HK$'000	Provision for other receivables HK$'000	Provision for trade receivables HK$'000	Fixed assets depreciation HK$'000	2005 Total HK$'000
At 1 January, 2005	5,971	–	539	1,454	7,964
Credited to the income statement (note 10)	835	99	218	–	1,152
Reversal upon discontinued operation (note 12)	(3,993)	–	(22)	(1,454)	(5,469)
Gross deferred tax assets At 31 December, 2005	2,813	99	735	–	3,647

32. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.025 each (2005: 4,000,000,000 ordinary shares of HK$0.025 each)	**100,000**	100,000
Issued and fully paid:		
2,263,968,736 ordinary shares of HK$0.025 each (2005: 2,263,968,736 ordinary shares of HK$0.025 each)	**56,599**	56,599

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

(a) The Existing Scheme

The Company operates a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September, 2000. On 26 April, 2002, the Existing Scheme was terminated and replaced by a new share option scheme, as detailed below under the heading "The New Scheme". Upon the termination of the Existing Scheme, no further share options will be granted pursuant to the Existing Scheme, however the Existing Scheme will, in all other respects, remain in force to the extent necessary to give effect to the exercise of the outstanding share options previously granted pursuant thereto. The outstanding share options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries. The directors of the Company are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares of the Company (the "Shares"). Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing on 19 September, 2000.

33. SHARE OPTION SCHEME (Continued)

(a) The Existing Scheme (continued)

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the Shares in issue for a period of 10 consecutive years. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 10% of the Shares in issue at any time. No option may be granted to any eligible participants which, if exercised in full, would result in such eligible participants becoming entitled to subscribe for such number of Shares as, and when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, which may commence from the date immediately following the date of grant and ending on such date as the directors of the Company may determine but in any event not exceeding 10 years from the date of grant of such share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options as stated in the daily quotation sheet of the Stock Exchange; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer as stated in the daily quotation sheets of the Stock Exchange.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 9.6 of the Rules of the Existing Scheme, if there is any alteration in the capital structure of the Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issued, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party) or otherwise, such corresponding alterations (if any) shall be made in:

(i) the number of Shares (without fractional entitlements) subject to the Option so far as unexercised; and/or

(ii) the Subscription Price; and/or

(iii) the method of exercise of the Option.

All share options granted by the Company were fully exercised in 2005. There were no further share options granted by the Company in 2006.

33. SHARE OPTION SCHEME (Continued)

(b) The New Scheme

Following the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October, 2001, no share options may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new share option scheme (the "New Scheme") was adopted by the Company on 26 April, 2002 and at the same time the Existing Scheme was terminated. The New Scheme remains in force for ten years commencing from 26 April, 2002. On approval by the Stock Exchange for listing of the Company's shares on the main board, the Company adopted a proposed share option scheme (the "Proposed Scheme") and terminated the New Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 24 November, 2003. No share options were granted under the New Scheme since 26 April, 2002.

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme")

The Proposed Scheme (hereafter to be known as the "2003 Scheme") became effective on 8 December, 2003 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2003 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the 2003 Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the 2003 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding option, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2003 Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

33. SHARE OPTION SCHEME (Continued)

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme") (continued)

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2003 Scheme at any time during a period to be determined on the date of offer of grant of share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the 2003 Scheme for the holding of a share option before it can be exercised.

The exercise price of the Shares under the 2003 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2003 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued shares of HK$0.10 each into four shares of HK$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2003 Scheme accordingly.

No share options were granted under the 2003 Scheme during the year.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 56 to 57 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September, 2000, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in the Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, enterprise expansion fund and staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the Mainland China joint ventures.

34. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Balance at 1 January, 2005		131,481	107,299	(162,953)	75,827
Issue of shares on exercise of share options	33	11,520	–	–	11,520
Issue of shares on exercise of convertible bonds	32	157,711	–	–	157,711
Issue of bonus shares		(18,866)	–	–	(18,866)
Profit for the year	11	–	–	1,614,149	1,614,149
Interim 2005 dividend	13	–	(30,186)	(73,207)	(103,393)
Special dividend	13	–	–	(113,199)	(113,199)
Proposed final 2005 dividend	13	–	–	(33,959)	(33,959)
At 31 December, 2005		281,846	77,113	1,230,831	1,589,790
Balance at 1 January, 2006					
As previously reported		281,846	77,113	1,230,831	1,589,790
Transfer to retained profits arising from disposal of subsidiaries		–	(16,649)	16,649	–
As restated		281,846	60,464	1,247,480	1,589,790
Profit for the year	11	–	–	140,780	140,780
Interim 2006 dividend	13	–	–	(67,920)	(67,920)
Proposed final 2006 dividend	13	–	–	(45,279)	(45,279)
At 31 December, 2006		**281,846**	**60,464**	**1,275,061**	**1,617,371**

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Discounted bank notes	**8,464**	4,970	**–**	–

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use right under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and for land use right are for terms ranging from one to fifty years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,791**	2,221	**780**	1,172
In the second to fifth years, inclusive	**3,534**	3,367	**325**	806
After five years	**22,057**	23,182	**–**	–
	28,382	28,770	**1,105**	1,978

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	**413**	2,614
– Capital contributions in respect of a joint venture company (note 19)	**722,400**	–
	722,813	2,614
Authorised, but not contracted for:		
– Plant and machinery	**2,945**	20,994

In addition, the Company's share of the jointly-controlled entity's capital commitments, which are not included in the above, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	**1,052**	223

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the years:

	Group	
	2006	2005
	HK$'000	HK$'000
Sales of products to:		
– a Chinese joint venture partner of a subsidiary (note a)	**–**	1,341
– a related party with a common shareholder of a subsidiary (note a)	**–**	773
Purchases of raw materials from:		
– a related party with a common shareholder of a subsidiary (note b)	**–**	17,264
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary (note b)	**3,313**	2,178
– a company indirectly owned by a director (note b)	**–**	5
Service revenue from		
– a company indirectly owned by a director (note c)	**234**	869
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note d)	**–**	3,635
– a Chinese joint venture partner of a subsidiary (note d)	**580**	565
– a company beneficially owned by a director (note d)	**780**	684
Research and development expenses to		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note e)	**–**	1,439

38. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) Sales of products to the Chinese joint venture partner of the subsidiary, Chinese joint venture of a jointly-controlled entity and a related party with a common shareholder of a subsidiary were conducted with reference to the market prices.

(b) Purchases of raw materials were conducted with reference to the market prices.

(c) Service revenue were conducted with reference to the market prices.

(d) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.

(e) Research and development expenses were based on the terms of the agreements entered into with the related party.

(b) Other transactions with related parties

(i) As disclosed in note 19, on 21 November, 2006, the Group acquired the entire equity interests from the investors of CT Tianyi via JCTT (the "Acquisition"). The investors included Jiangsu Juxin which is a wholly-owned subsidiary of Jiangsu State Agribusiness Commercial Commodities Limited ("Jiangsu Agribusiness") which holds a 33.5% equity interests in JCTT. JCTT is 60% owned by the Group. The consideration of RMB8,600,000 (approximately HK$8,256,000) for the Acquisition was fulfilled by cash to the investors of CT Tianyi. The Acquisition constituted a connected transaction as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Details of the Acquisition were set out in the Company's press announcement dated 22 November, 2006.

(ii) On 18 September, 2006, JCTT entered into a master supply agreement to supply to CT Tianyi anti-bacterial and anti-inflammatory medicines and hepatitis and oncology medicines from 18 September, 2006 to 31 December, 2007 (the "JCTT Master Supply Agreement"). The terms of the JCTT Master Supply Agreement is to be determined by reference to the prevailing market price and demand of anti-bacterial and anti-inflammatory medicines and hepatitis and oncology medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The JCTT Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the JCTT Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. The sale of goods by JCTT to CT Tianyi for the year amounted to HK$1,862,000, and has been eliminated on consolidation.

(iii) On 18 September, 2006, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") entered into a master supply agreement to supply to CT Tianyi cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines from 18 September, 2006 to 31 December, 2007 (the "NJCTT Master Supply Agreement"). The terms of the NJCTT Master Supply Agreement is to be determined by reference to the prevailing market price and demand of cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The NJCTT Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the NJCTT Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. The sale of goods by NJCTT to CT Tianyi for the year amounted to HK$2,067,000, and has been eliminated on consolidation.

38. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

(iv) On 18 September, 2006, Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai") entered into a master supply agreement to supply to CT Tianyi anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines from 18 September, 2006 to 31 December, 2007 (the "Jiangsu Fenghai Master Supply Agreement"). The terms of the Jiangsu Fenghai Master Supply Agreement is to be determined by reference to the prevailing market price and demand of anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The Jiangsu Fenghai Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. There were no transactions arising from the Jiangsu Fenghai Master Supply Agreement in 2006.

(v) On 18 September, 2006, Jiangsu Qingjiang entered into a master supply agreement to supply to CT Tianyi arthritis medicines and cardio-cerebral medicines from 18 September, 2006 to 31 December, 2007 (the "Qingjiang Master Supply Agreement"). The terms of the Qingjiang Master Supply Agreement is to be determined by reference to the prevailing market price and demand of arthritis medicines and cardio-cerebral medicines in the Mainland China and no less favourable to CT Tianyi than those available to CT Tianyi from independent third parties. The Qingjiang Master Supply Agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the Qingjiang Master Supply Agreement were set out in the Company's press announcement dated 18 September, 2006. There were no transactions arising from the Qingjiang Master Supply Agreement in 2006.

(vi) On 23 December, 2005, CTGC entered into an agreement with Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian") for CT Green Continent to provide technology development services for certain pharmaceutical products for a term of 3 years from 1 January, 2006 to 31 December, 2008 to CT Xian (the "CT Xian Technology Services Agreement"). The terms of the technology development services are to be determined by reference to the prevailing market prices and no more favourable to CT Xian than those offered to independent third parties. CT Xian is a sino-foreign equity joint venture established in the Mainland China which is 60% (indirectly) owned by Mr Tse Ping, chairman of the Company, and is principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine. CT Xian is a connected party as defined in Chapter 14A of the Listing Rules. Details of the CT Xian Technology Services Agreement were set out in the Company's press announcement dated 4 January, 2006. There were no transactions arising from the CT Xian Technology Services Agreement in 2006.

38. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

(vii) On 23 December, 2005, CTGC entered into an agreement with Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai") for CT Green Continent to provide technology development services for certain pharmaceutical products for a term of 3 years from 1 January, 2006 to 31 December, 2008 to Jiangsu Fenghai (the "Jiangsu Fenghai Technology Services Agreement"). The terms of the technology development services are to be determined by reference to the prevailing market prices and no more favourable to Jiangsu Fenghai than those offered to independent third parties. Jiangsu Fenghai is 51% owned by a company wholly-owned by Mr Tse Ping, chairman of the Company, and is principally engaged in the production and sale of pharmaceutical raw materials and products. Jiangsu Fenghai is a connected party as defined in Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai Technology Services Agreement were set out in the Company's press announcement dated 4 January, 2006. The service revenue by CTGC for the year amounted to HK$234,000, and has been disclosed in note 38(a) under "Service revenue from a company indirectly owned by a director".

(viii) On 23 December, 2005, JCTT and Jiangsu Agribusiness entered into a master purchase agreement for JCTT's purchase of coal from Jiangsu Agribusiness for a term of 3 years from 1 January, 2006 to 31 December, 2008 (the "Master purchase agreement"). The terms of the Master purchase agreement are to be determined by reference to the prevailing market price of coal in Mainland China, the prevailing market demand and the quotations obtained from various potential suppliers, and no less favourable to JCTT than those available from independent suppliers. Jiangsu Agribusiness is a connected party and the Master purchase agreement constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the Master purchase agreement were set out in the Company's press announcement dated 4 January, 2006. The purchase of raw materials from Jiangsu Agribusiness for the year amounted to HK$3,313,000, and has been disclosed in note 38(a) under "Purchases of raw materials from a chinese joint venture partner of a subsidiary".

(ix) On 23 December, 2005, CTGC entered into an agreement with investors of Jiangsu Qing Jiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") for acquisition of 20% equity interests in Jiangsu Qingjiang by injection of certain pharmaceutical technologies. As Jiangsu Agribusinesss is an investor of Jiangsu Qingjiang, the agreement with the investors of Jiangsu Qingjiang constituted a connected transaction under Chapter 14A of the Listing Rules. Details of the acquisition of the 20% equity interests of Jiangsu Qingjiang were set out in the Company's press announcement dated 4 January, 2006.

(c) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had trade payables to its Chinese joint venture partners of HK$917,000 (2005: HK$1,181,280) and trade receivables from its Chinese joint venture partners of HK$2,192,000 (2005: HK$1,094,026). Trade payables and receivables are unsecured, interest-free and on normal trade terms for repayment.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's financial instruments are credit risk, significant concentrations of credit risk, interest rate risk, currency risk, liquidity and funding risk, and net fair value risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties and has a stringent procedure in extending credit terms to customers and in monitoring its credit risk.

The credit policy outlines clearly the guidelines on extending credit terms to customers, including monitoring the credit control process and use of related industry's practices as reference. This includes assessing and valuation of customers' credit reliability and periodic review of their financial status to determine credit limits to be granted. Customers may be required to provide security in terms of cash or immovable assets.

The carrying amount of financial assets recorded in the financial statements, net of any provision for doubtful debts, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The directors consider credit risk to be low as the major customers are large and medium corporations with good credit track records.

Interest rate risk

Interest rate risk arises from the potential changes in interest rates that may have adverse effects in the Group's results for the current reporting year and in the future years.

The directors consider that the Group is not significantly exposed to interest rate risk and no hedging or other alternatives have been implemented.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and HK dollars. In the Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner).

The directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Liquidity and funding risk

The Group's liquidity remains strong as at balance sheet date. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group is not exposed to liquidity and funding risk.

Net fair value

The carrying amounts of cash and bank balances, trade and other receivables and payables, provisions and other liabilities approximate their respective fair values due to the relatively short maturity term.

It is not practicable within the constraint of cost to reliably determine the fair value of amounts of receivables and payables to related companies as these balances are on normal trade terms.

40. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the directors of the Company proposed a final dividend of HK$0.02 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 13 and 34).

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March, 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage. As the principal operating subsidiaries of the Group were designated as "High and New Technology Enterprises", it is expected that there is no material impact on the Group.

41. COMPARATIVE AMOUNTS

The contributed surplus and retained profits for both the Company and the Group as at 31 December, 2005 have been restated to reflect the transfer from the attributable amount of contributed surplus of the disposed subsidiaries (note 12) to retained profits as set out in the Company's reserves (note 34(b)), and the consolidated statement of changes in equity.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 3 April, 2007.