## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability on 21 March 2006 under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report. The principal activities of its subsidiaries are set out in note 31.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the group entities.

## 2. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Under a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Group Reorganisation"), the Company has become the ultimate holding company of the Group on 27 October 2006.

Details of the Group Reorganisation are set out in the paragraph headed "The Reorganisation" in Appendix VI to the Prospectus dated 22 January 2007 issued by the Company.

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

(a) Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") acquired the entire equity interest of 福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai"), the former holding company of the Group and Cyberstop Profits Limited ("Cyberstop"), for a consideration of RMB128,083,000; and

(b) the shares of the Company were then issued and allotted to the existing shareholders of Wuyi BVI in exchange for the shares in Wuyi BVI.

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger accounting for common control combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the group structure under the Group Reorganisation had been in existence throughout the two years ended 31 December 2006 or since their respective dates of incorporation or establishment whichever is the shorter period.

The consolidated income statements and the consolidated cash flow statements which are prepared in accordance with the principles of merger accounting, for each of the two years ended 31 December 2006 include the results and cash flows of the Company and its subsidiaries as if the group structure upon the completion of the Group Reorganisation had been in existence throughout 2005 and 2006 or since their respective date of incorporation or establishment where this is a shorter period. The consolidated balance sheet of the Group as at 31 December 2005 has been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies comprising the Group as if the group structure upon the completion of the Group Reorganisation had been in existence as at that date.

## 3. NEW HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued the following Standards, Amendment and INTs that have been issued but are not yet effective. The Group has considered the following Standards, Amendment and INTs but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures [1] |
| HKFRS 7 | Financial instruments: Disclosures [1] |
| HKFRS 8 | Operating segment[1] |
| HK(IFRIC) - INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2] |
| HK(IFRIC) - INT 8 | Scope of HKFRS 2 [3] |
| HK(IFRIC) - INT 9 | Reassessment of embedded derivatives [4] |
| HK(IFRIC) - INT 10 | Interim financial reporting and impairment [5] |
| HK(IFRIC) - INT 11 | HKFRS 2 - Group and treasury share transactions [6] |
| HK(IFRIC) - INT 12 | Service concession arrangements [7] |

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value. In addition, the consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of a subsidiary so as to obtain benefit from its activities.

All significant inter-company transactions, balances, income and expenses within the Group are eliminated on consolidation.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

### Revenue recognition

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

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

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

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

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

The cost of buildings is depreciated over 30 years using the straight line method.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. They are not depreciated until completion of construction and the asset is ready for their intended use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|---|---|
| Furniture, fixtures and equipment | 10% - 20% |
| Motor vehicles | 20% |
| Plant and machinery | 10% - 20% |

### Land use rights

Payment for obtaining land use right is considered as operating lease payment and charged to income statement over the lease term of the right using the straight line method.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

***Research and development costs***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

***Product development costs***

Product development costs are amortised using the straight line basis over the commercial lives of the underlying products, starting from the time when the product is available for sale.

***Patents***

Purchased patents are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is calculated on a straight line basis over its estimated useful economic life, starting from the time when the patent is available for use.

***Impairment***

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimated of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are measured initially at fair value.

***Trade and other receivables***

Trade and other receivables are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial liability and equity***

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

***Trade and other payables and amount due to a director***

Trade and other payables and amount due to a director are subsequently measured at amortised cost, using the effective interest method.

***Bank loans***

Interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest method.

***Convertible bonds***

The conversion option embedded in convertible bonds that will or may be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is a derivative embedded in the financial liability. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible bonds (including the embedded derivatives) as a whole is designated as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Put option***

A put option written by the Company which requires the Company to settle the obligation other than by the exchange of a fixed amount of cash for a fixed number of the Company's shares is a put option derivative. The put option derivative is recognised at fair value at initial recognition and at subsequent balance sheet dates with fair value adjustment recognised directly in profit or loss. Where the put option will be settled by delivering of cash and receiving a fixed number of the Company's shares, a financial liability is recognised on the consolidated balance sheet representing the present value of the obligation with a corresponding adjustment to equity.

***Equity instruments***

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

### Impairment of tangible and intangible assets (other than intangible assets not available for use)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of tangible and intangible assets (other than intangible assets not available for use)** (continued)

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

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

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

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement.

### Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in RMB using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

### Impairment of intangible assets

The policy for impairment of intangible assets not available for use of the Group is based on the evaluation of their recoverable amount with reference to expected future cash flows on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's pharmaceutical products under development. If the recoverable amounts are less than the carrying amounts of the intangible assets, impairment may be required.

### Fair value of convertible bonds at fair value through profit or loss

The fair value of convertible option included in the convertible bonds designated at fair value through profit or loss is subject to the limitation of the Binominal model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the Binomial model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the key assumptions are disclosed in note 22.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Credit risk

The Group's principal financial assets are trade and other receivables and bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the Group's management continuously monitor the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

### Interest rate risk

The Group exposed to fair value interest rate risk through the fixed rate bank loans.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

### Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group has convertible bonds denominated in United States Dollars and expose to foreign currency risk. Apart from this, the management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in RMB. However, the management monitors foreign currency exposure and will consider hedging the foreign currency exposure should the need arise.

### Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- for an option-based derivative, the fair value is estimated using option pricing model (for example, the Binomial Model, etc).

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

## 7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacturing and trading of pharmaceutical products. During the year, all the Group's sales are made in the Mainland China (the "PRC"). Accordingly, no segment analysis of business and geographical segments is presented for the year.

## 8. PROFIT BEFORE TAXATION

| | **2006**<br>**RMB'000** | 2005<br>RMB'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration (note 9) | **527** | 357 |
| Other staff's retirement benefits scheme contributions | **1,679** | 1,400 |
| Other staff costs | **13,814** | 8,675 |
| | **16,020** | 10,432 |
| Less: Staff costs included in research and development costs | **(454)** | (630) |
| | **15,566** | 9,802 |
| Depreciation | **4,178** | 3,792 |
| Less: Depreciation included in research and development costs | **(266)** | (258) |
| | **3,912** | 3,534 |
| Auditor's remuneration | **1,550** | 18 |
| Loss on disposal of property, plant and equipment | **15** | – |
| Operating lease rentals in respect of | | |
| – land use rights | **252** | 244 |
| – rented premises | **358** | 204 |
| Research and development costs | **1,179** | 1,272 |
| Write-down of inventories included in cost of goods sold | **388** | – |
| and after crediting: | | |
| Interest income | **587** | 470 |
| Exchange gain | **1,646** | – |

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the 9 Directors were as follows:

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Retirement benefits scheme contributions | Total | Fees | Salaries and other benefits | Retirement benefits scheme contributions | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Executive Directors | | | | | | | | |
| Mr. Lin Ou Wen | – | 187 | 38 | 225 | – | 125 | 26 | 151 |
| Mr. Lin Qing Ping | – | 186 | 36 | 222 | – | 119 | 24 | 143 |
| Mr. Xu Chao Hui | – | 67 | 13 | 80 | – | 52 | 11 | 63 |
| Mr. Dennis Luan Thuc Nguyen | – | – | – | – | – | – | – | – |
| Non-executive Directors | | | | | | | | |
| Mr. Tang Bin | – | – | – | – | – | – | – | – |
| Mr. John Yang Wang | – | – | – | – | – | – | – | – |
| Independent Non-executive Directors | | | | | | | | |
| Mr. Goh Jin Hian | – | – | – | – | – | – | – | – |
| Mr. Liu Jun | – | – | – | – | – | – | – | – |
| Mr. Lam Yat Cheong | – | – | – | – | – | – | – | – |
| | – | 440 | 87 | 527 | – | 296 | 61 | 357 |

The five highest paid individuals included two Directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three individuals are as follows:

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Salaries and other benefits | 440 | 266 |
| Retirement benefits scheme contributions | 54 | 55 |
| | 494 | 321 |

During the year, no emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

## 10. TAXATION

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| PRC income tax | (32,122) | (55,384) |
| Deferred taxation | (2,508) | (2,079) |
| | (34,630) | (57,463) |

PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC, certain Group's PRC subsidiaries, which were qualified as Production Enterprises during the year 2006, shall be entitled to exemption from PRC income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

The charge for the year is reconciled to profit before taxation as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % |
| Profit before taxation | 154,021 | – | 174,666 | – |
| Tax at the applicable income tax rate | (50,827) | (33.0) | (57,640) | (33.0) |
| Tax effect of expenses not deductible for tax purposes | (28,116) | (18.3) | – | – |
| Effect of tax exemption granted to a subsidiary | 44,145 | 28.7 | – | – |
| Tax effect of deemed taxable income in the PRC | (117) | (0.1) | (137) | (0.1) |
| Others | 285 | 0.2 | 314 | 0.2 |
| Tax charge and effective tax rate for the year | (34,630) | (22.5) | (57,463) | (32.9) |

## 11. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation. The dividends paid represented dividends distributed by Fujian Sanai to its then shareholders before the completion of the Group Reorganisation.

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB119,774,000 (2005: RMB117,288,000) and on the weighted average number of 1,091,261,370 (2005: 1,049,600,000) shares in issue throughout the year on the assumption that the Group Reorganisation has been effective on 1 January 2005.

No diluted earnings per share is presented as the assumed conversion of the Group's convertible bonds since their issuance would result in an increase in profit per share.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Furniture, fixtures and equipment | Motor vehicles | Plant and machinery | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | | | |
| At 1 January 2005 | 21,446 | 712 | 2,178 | 28,975 | 8,500 | 61,811 |
| Additions | – | 15 | – | 20,384 | 20,917 | 41,316 |
| Transfers | 9,300 | – | – | – | (9,300) | – |
| At 31 December 2005 | 30,746 | 727 | 2,178 | 49,359 | 20,117 | 103,127 |
| Additions | – | 865 | 318 | 17,884 | 24,998 | 44,065 |
| Disposals | – | – | (58) | – | – | (58) |
| Transfers | – | 4,750 | – | 4,465 | (9,215) | – |
| At 31 December 2006 | 30,746 | 6,342 | 2,438 | 71,708 | 35,900 | 147,134 |
| DEPRECIATION | | | | | | |
| At 1 January 2005 | 1,119 | 190 | 328 | 4,935 | – | 6,572 |
| Provided for the year | 691 | 127 | 173 | 2,801 | – | 3,792 |
| At 31 December 2005 | 1,810 | 317 | 501 | 7,736 | – | 10,364 |
| Provided for the year | 989 | 128 | 173 | 2,888 | – | 4,178 |
| Eliminated on disposals | – | – | (27) | – | – | (27) |
| At 31 December 2006 | 2,799 | 445 | 647 | 10,624 | – | 14,515 |
| NET BOOK VALUES | | | | | | |
| At 31 December 2006 | 27,947 | 5,897 | 1,791 | 61,084 | 35,900 | 132,619 |
| At 31 December 2005 | 28,936 | 410 | 1,677 | 41,623 | 20,117 | 92,763 |

All the Group's buildings which are situated in the PRC are erected on land held under medium-term land use right.

## 14. LAND USE RIGHTS

| | **2006** | 2005 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| CARRYING VALUE | | |
| At 1 January | **11,916** | 11,698 |
| Additions during the year | **–** | 462 |
| Charged to income statement for the year | **(252)** | (244) |
| At 31 December | **11,664** | 11,916 |

The balance represents prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

## 15. INTANGIBLE ASSETS

| | Patents | Product development costs | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| COST AND CARRYING VALUE | | | |
| At 1 January 2005 | 7,130 | – | 7,130 |
| Additions | 6,300 | 4,800 | 11,100 |
| At 31 December 2005 | 13,430 | 4,800 | 18,230 |
| Additions | 2,800 | 3,177 | 5,977 |
| At 31 December 2006 | 16,230 | 7,977 | 24,207 |

During the year, there was no amortisation on the intangible assets as they are not yet available for use.

## 16. INVENTORIES

| | 2006 | 2005 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Raw materials | 10,885 | 8,428 |
| Work in progress | 15 | 50 |
| Finished goods | 10,673 | 9,313 |
| | 21,573 | 17,791 |

## 17. TRADE AND OTHER RECEIVABLES

| | 2006 | 2005 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Trade receivables | 135,012 | 104,178 |
| Other receivables | 2,376 | 361 |
| | 137,388 | 104,539 |

The Group normally grants credit terms of 30 days to 60 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

| | 2006 | 2005 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Age | | |
| 0 to 30 days | 69,294 | 53,380 |
| 31 to 60 days | 65,718 | 50,798 |
| | 135,012 | 104,178 |

## 18. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. During the year, the bank deposits carry interest rate of approximately 0.72% to 2.75% (2005: 0.72% to 3.0%) per annum.

## 19. TRADE AND OTHER PAYABLES

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Trade payables | | |
| – a related company* | 1,205 | 4,818 |
| – others | 56,642 | 40,562 |
| | 57,847 | 45,380 |
| Other tax payables | 10,056 | 8,697 |
| Accrued charges | 9,894 | 2,988 |
| Payroll and welfare payables | 415 | 1,060 |
| Payable for acquisition of property, plant and equipment | 2,704 | – |
| Others | 1,655 | 919 |
| | 82,571 | 59,044 |

* The related company is 福州宏宇包裝工業有限公司 Fuzhou Hongyu Packing Co., Ltd. ("Fuzhou Hongyu"), a company controlled by Mr. Lin Ou Wen who is a Director of the Company and has beneficial interest in the Company.

The following is an aged analysis of trade payables at the balance sheet date:

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Age | | |
| 0 to 30 days | 32,668 | 24,613 |
| 31 to 60 days | 25,179 | 20,767 |
| | 57,847 | 45,380 |

## 20. AMOUNT DUE TO A DIRECTOR

The amount represents a promissory note issued to a director which was unsecured, interest-free and was fully repaid in April 2007.

## 21. SHORT-TERM BANK LOANS

The bank loans carry fixed interest rates in the range of 6.138% - 6.696% (2005: 5.31% - 6.696%) per annum.

## 22. OTHER FINANCIAL LIABILITY

The other financial liability at 31 December 2006 represents the financial liability from the Put Option 2 (as defined below). This Put Option 2 lapsed upon completion of the initial offer for subscription of the shares of the Company to the public on 1 February 2007.

Several investors (the "Investors"), a number of original owners of Fujian Sanai (the "11 Founding Shareholders"), Mr. Lin Ou Wen, a Director of the Company, and the then shareholders of Wuyi BVI (the "Original Shareholders") entered into a subscription agreement on 22 May 2006 (the "Subscription Agreement"), supplemental agreement on 20 June 2006 and an investment agreement on 11 July 2006 ("Investment Agreement") with Wuyi BVI, pursuant to which Wuyi BVI issued convertible bonds due on 12 July 2008 (the "Convertible Bonds") to the Investors in an aggregate principal amount of US$18 million convertible into the ordinary shares of Wuyi BVI at an initial conversion price of US$8,200.456 per share subject to certain adjustments set forth in the Investment Agreement.

Pursuant to the Investment Agreement, the Investors have an option ("Put Option 1"), which gives the Investors the right to require Wuyi BVI to purchase all of the shares of Wuyi BVI held by the Investors in the event that the Company fails to complete the initial offer for subscription of the shares of the Company to the public within six months from the date of conversion of the Convertible Bonds into the shares of Wuyi BVI. The aggregate purchase price at which the Investors may require Wuyi BVI to repurchase Wuyi BVI's shares under Put Option 1 will be equal to the price at which the Investors acquired Wuyi BVI's shares pursuant to the Subscription Agreement plus a premium equivalent to a compound return of 6% per annum for the period from the date of issue of the Convertible Bonds to the date of the exercise of Put Option 1.

Put Option 1 will lapse upon completion of the initial offer for subscription of the shares of the Company to the public within six months from the date of conversion of the Convertible Bonds into the shares of Wuyi BVI.

On 27 October 2006, Wuyi BVI, the Investors, the 11 Founding Shareholders, Mr. Lin Ou Wen and the Original Shareholders entered into a supplemental deed to the Subscription Agreement pursuant to which the Investors exercised their conversion rights under the Convertible Bonds, which caused the Company instead of Wuyi BVI to issue 230,400,000 shares of the Company to the Investors at a conversion price of US$0.078125 each on 27 October 2006.

On 27 October 2006, Wuyi BVI, the Investors, the 11 Founding Shareholders, Mr. Lin Ou Wen, the Original Shareholders and New Asia Partners Investment Holdings Limited ("NAP"), a company owned by the spouse of a Director of the Company, entered into a termination agreement terminating the Investment Agreement. On 27 October 2006, the Company, the Original Shareholders, the 11 Founding Shareholders, Mr. Lin Ou Wen, NAP and the Investors entered into the New Investment Agreement pursuant to which the Company granted to the Investors an option (the "Put Option 2") which gives the Investors the right to require the Company to repurchase all the Shares held by the Investors in the event that the Company fails to complete the Hong Kong public offer within six months from 27 October 2006. The aggregate purchase price at which the Investors may require the Company to repurchase all the Shares under Put Option 2 will be equal to the price at which the Investors acquired all the Shares pursuant to the supplemental deed to the Subscription Agreement which is US$18 million, as amended, plus a premium equivalent to a compound return of 6% per annum for the period from the date of the New Investment Agreement to the date of the exercise of the Put Option 2.

The Convertible Bonds issued in July 2006 carry interest at a rate of the greater of (i) 6% per annum or (ii) an amount corresponding with dividends or asset distributions by Wuyi BVI on or after 1 January 2006. The fair value of the Convertible Bonds at 27 October 2006 has been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, an independent business valuer.

## 22. OTHER FINANCIAL LIABILITY (continued)

The movements of the Convertible Bonds were as follows:

| | RMB'000 |
|---|---|
| 6% convertible bonds issued during the year | 142,200 |
| Currency realignment | (1,800) |
| Change in fair value during the year | 63,890 |
| Conversion into shares of the Company during the year | (204,290) |
| At 31 December 2006 | – |

The fair value of the Convertible Bonds were calculated using the Binomial Model. The inputs into the model by reference to the valuation of Wuyi BVI were as follows:

| | |
|---|---|
| Average share price | US$10,840 |
| Exercise price | US$8,200 |
| Expected volatility | 30% |
| Expected life | Nine months |
| Risk-free rate | 3.7% |
| Expected dividend yield | 0.0% |

Put option 2 was lapsed when the shares of the Company was listed on the Main Board of the Stock Exchange on 1 February 2007.

## 23. DEFERRED TAXATION

The following is the deferred tax liabilities recognised and movements thereon during the year:

| | **Deferred product development costs and patents** RMB'000 |
|---|---|
| At 1 January 2005 | – |
| Charged to consolidated income statement for the year | 2,079 |
| At 31 December 2005 | 2,079 |
| Charged to consolidated income statement for the year | 2,508 |
| At 31 December 2006 | 4,587 |

## 24. PAID-IN CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | HK$'000 |
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| On incorporation | 38,000,000 | 380 |
| Increase in authorised share capital | 3,162,000,000 | 31,620 |
| At 31 December 2006 | 3,200,000,000 | 32,000 |
| Issued and fully paid: | | |
| Issue of shares | 6 | – |
| Issue of shares pursuant to the Group Reorganisation | 1,049,599,994 | 10,496 |
| Issue of shares on conversion of Convertible Bonds | 230,400,000 | 2,304 |
| At 31 December 2006 | 1,280,000,000 | 12,800 |
| Shown in the consolidated balance sheet at 31 December 2006 as | | RMB12,800,000 |

The movements in the Company's authorised and issued share capital during the period from 21 March 2006 (date of incorporation) to 31 December 2006 are as follows:

(a) Upon incorporation, the authorised share capital of the Company was HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each of which one subscriber share was allotted and issued in cash at par on 21 March 2006. On 8 August 2006, 5 shares were allotted and issued fully paid.

(b) On 27 October 2006, the authorised share capital of the Company was increased from HK$380,000 to HK$32,000,000 by the creation of an additional 3,162,000,000 ordinary shares of HK$0.01 each.

(c) On 27 October 2006, as part of the Group Reorganisation, all the shareholders of Wuyi BVI transferred the entire issued share capital in Wuyi BVI to the Company in consideration and in exchange for which the Company allotted and issued an aggregate of 1,049,599,994 shares, credited as fully paid at par in proportion to their then respective shareholding in Wuyi BVI.

(d) On 27 October 2006, pursuant to a supplemental deed to the Subscription Agreement dated 27 October 2006, the Investors converted the then entire outstanding Convertible Bonds into 230,400,000 shares.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

The paid-in capital at 31 December 2005 represented the aggregate paid-in capital of Cyberstop and Fujian Sanai.

## 25. MAJOR NON-CASH TRANSACTION

The consideration for the purchase of 40% equity interest in 福州三愛藥業有限公司 Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai") comprised a promissory note in the amount of US$8,000,000, which does not carry any interest and payable on the date of listing of shares on the Exchange, issued to a Director which was not paid at the balance sheet date.

## 26. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Within one year | 966 | – |
| In the second to third year inclusive | 1,569 | – |
| | 2,535 | – |

## 27. CAPITAL COMMITMENTS

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of | | |
| – property, plant and equipment | – | 15,783 |
| – intangible assets | 8,100 | 12,150 |
| | 8,100 | 27,933 |

## 28. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,000 per month for each employee.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC Government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

## 29. RELATED PARTY TRANSACTIONS

During the year, the Group has the following significant transactions with its related parties:

| **Name of related party** | **Relationship with related party** | **Nature of transaction** | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|---|
| Fuzhou Hongyu | Company controlled by Mr. Lin Ou Wen | Purchase of packaging materials | 14,959 | 29,033 |
| Mr. Lin Qin Xiang | Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping* | Property rentals paid | 204 | 204 |
| Mr. Lin Ou Wen | Director | Purchase of 40% interest in Fuzhou Sanai | 62,400 | – |

* Messrs. Lin Ou Wen and Lin Qing Ping are Directors of the Company and have beneficial interests in the Company.

The details of remuneration of key management personnel represents emolument of Directors of the Company paid during the year which are set out in note 9.

## 30. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2006:

(a) On 8 January 2007, the Company has adopted a share option scheme (the "Share Option Scheme") pursuant to a written shareholders' resolution of the Company. The Directors were authorised to grant options to subscribe for shares of the Company and allot and issue shares pursuant thereto and take all such steps as they consider necessary or desirable to implement the Share Option Scheme.

(b) On 1 February 2007, 363,000,000 ordinary shares of HK$0.01 each of the Company were issued at HK$1.80 by way of placing and public offer. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

(c) On 5 February 2007, an over-allotment option was exercised and a further 66,772,500 shares of HK$0.01 each were issued at HK$1.80.

## 31. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31 December 2006 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/operations | Nominal value of issued and fully paid share capital/ registered capital | Principal activity |
|---|---|---|---|
| Wuyi BVI* | British Virgin Islands | US$10,000 | Investment holding |
| Cyberstop | British Virgin Islands/PRC | US$10,000 | Provision of marketing services |
| Fujian Sanai | PRC wholly foreign owned enterprise for a term of 50 years commencing 18 January 2000 | RMB60,780,000 | Develop, manufacture, marketing and sales of pharmaceutical products |
| Fuzhou Sanai | PRC sino-foreign equity joint venture for a term of 50 years commencing 24 December 2003 | US$5,000,000 | Develop, manufacture, marketing and sales of pharmaceutical products |

* *Directly held by the Company.*

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.