

## **ASIAPHARM GROUP LTD**

**Full Year Financial Statement Announcement for the Year Ended 31/12/2006**

### **PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS**

#### **Explanatory Note:**

**On 30 May 2006, the Group announced that its wholly-owned subsidiary, Shandong Luye Pharmaceutical Co., Ltd (“Shandong Luye”) has acquired the remaining 20% minority interest shareholding in Shandong Luye’s subsidiary, Yantai Luye Drugs Trading Co. Ltd (“LDT”) for RMB 1.2 million.**

**As a result of the acquisition, LDT became a wholly-owned subsidiary of the Group with effect from 1 January 2006.**

**On 24 October 2006, the Group announced the acquisition of the CMNa® (Sodium Glycididazole for Injection, 希美纳) business, a cancer treatment injection drug for the consideration of RMB 80 million from Lifetech Pharmaceuticals Ltd (“Lifetech”) in Guangzhou.**

**As part of the acquisition, Onsuccess Limited (“OSL”), an investment holding company and Guangzhou Lifetech Jiuzhoutong New/Special Drug Company (“JZT”) became wholly owned subsidiaries of the Group with effect from 23 October 2006.**

1(a) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

<b>Group profit and loss statement</b>						
	4QFY06	4QFY05		For the year ended		
	31.12.2006	31.12.2005	Changes	31.12.2006	31.12.2005	Changes
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Revenue	77,087	96,757	-20.3%	308,294	344,368	-10.5%
Cost of sales	(15,194)	(18,534)	-18.0%	(63,485)	(76,493)	-17.0%
<b>Gross profit</b>	<b>61,893</b>	<b>78,223</b>	<b>-20.9%</b>	<b>244,809</b>	<b>267,875</b>	<b>-8.6%</b>
Other income	17,262	3,204	438.8%	15,762	3,828	311.8%
Distribution expenses	(38,378)	(42,227)	-9.1%	(129,555)	(145,715)	-11.1%
Administrative expenses	(13,776)	(6,162)	123.6%	(32,402)	(21,638)	49.7%
Other operating expenses	(5,566)	(2,673)	108.2%	(18,009)	(12,725)	41.5%
<b>Profit from operations</b>	<b>21,435</b>	<b>30,365</b>	<b>-29.4%</b>	<b>80,605</b>	<b>91,625</b>	<b>-12.0%</b>
Finance revenue	1,951	332	487.7%	7,067	1,245	467.6%
Finance costs	(850)	(449)	89.3%	(2,188)	(2,489)	-12.1%
<b>Profit from operating activities before tax</b>	<b>22,536</b>	<b>30,248</b>	<b>-25.5%</b>	<b>85,484</b>	<b>90,381</b>	<b>-5.4%</b>
Taxation	(2,089)	(109)	N.M.	(4,572)	(217)	N.M.
<b>Net profit</b>	<b>20,447</b>	<b>30,139</b>	<b>-32.2%</b>	<b>80,912</b>	<b>90,164</b>	<b>-10.3%</b>
<b>Attributable to:</b>						
Equity holders of the parent	22,562	29,596	-23.8%	83,691	89,620	-6.6%
Minority interests	(2,115)	543	N.M.	(2,779)	544	N.M.
<b>Net profit</b>	<b>20,447</b>	<b>30,139</b>	<b>-32.2%</b>	<b>80,912</b>	<b>90,164</b>	<b>-10.3%</b>

N.M. = Not meaningful

#### Notes to income statements

<b>a) Cost of sales</b>		
Cost of sales comprises cost of materials, direct labour and manufacturing overheads.		
<b>b) Other income</b>		
	For the financial year ended	
	31.12.2006	31.12.2005
	RMB'000	RMB'000
Sale of distribution network	6,000	-
Government grants	345	-
Write-back of long aged payables	430	923
Net foreign exchange gain	8,563	1,484
Others	424	1,421
	<b>15,762</b>	<b>3,828</b>

<b>c) Other expenses</b>	<b>For the financial year ended</b>	
	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	R&D expenses	17,503
Loss on disposal of property, plant and equipment	92	143
Others	414	169
	<b>18,009</b>	<b>12,725</b>
<b>d) Finance revenue</b>		
Bank interest	7,067	1,245
<b>e) Finance costs</b>		
Interest on bank loans	2,051	2,426
Bank charges and others	137	63
	<b>2,188</b>	<b>2,489</b>
<b>f) Profit from operating activities</b>		
<b>Profit from operating activities is arrived at after charging:</b>		
Amortisation of intangible assets	1,190	1,069
Amortisation of land use rights	160	160
Amortisation of deferred expenditure	500	500
Depreciation of property, plant and equipment	13,260	10,493
Loss on disposal of property, plant and equipment	92	143
Operating lease expenses	1,591	1,147
Provision for bad and doubtful debts	6,490	511
Provision against obsolete inventories	452	204
Reversal of provision for obsolete inventories	-	(740)

**g) Taxation**

The Group's major subsidiary in the PRC ("Shandong Luye") is exempted from corporate tax and local income tax for its first 2 profit-making years commencing from the first profitable year and is entitled to a 50% tax exemption (ie. 12%) for the succeeding 3 years since converting to a foreign investment enterprise on 24 September 2003.

On 17 June 2005, Shandong Luye obtained tax approval from the relevant tax authorities as a qualified foreign-owned manufacturing enterprise engaging in technology-intensive and knowledge-intensive projects ("Double-Intensive Enterprise") and pursuant thereto Shandong Luye as a Double-Intensive Enterprise, is currently subjected to the corporate income tax rate at 15% with effect from 1 January 2005.

Pursuant to the tax exemptions stated above, Shandong Luye in the PRC is entitled to pay a reduced tax rate of 7.5% instead of 12% as previously announced, until 31 December 2007.

On 1 August 2005, Shandong Luye obtained a further extension of the 50% tax exemption (ie. 7.5%). However the said exemption extension is subject to a minimum corporate income tax rate of 10%, for 3 years from 1 January 2008.

For illustration purposes only, subject to changes in the PRC tax law and regulations, the applicable tax rates for Shandong Luye are summarised as follows:

FY2003 (with effect from 24 September 2003)	Nil
FY2004	Nil
FY2005 to FY2007 (50% of 15%)	7.5%
FY2008 to FY2010	not less than 10%

**h) Comparative figures**

The Group has reclassified certain comparative figures to conform with the current presentation.

1(b)(i) A balance sheet (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group	Group	Company	Company
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RMB'000	RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	106,682	114,915	-	-
Construction in progress	2,216	379	-	-
Investments in subsidiaries	-	-	994	994
Acquisition costs of CMNa business	76,501			
Intangible assets	1,677	1,967	-	-
Land use rights	6,575	6,735	-	-
Available-for-sale investments	9,094	4,535	-	-
Long-term deferred expenditures	3,792	4,292	-	-
Prepayment for acquisition	288,647	-	288,647	-
Goodwill	5,954	5,880	-	-
Deferred income tax assets	1,017	513	-	-
	502,155	139,216	289,641	994
<b>Current assets</b>				
Inventories	33,649	29,110	-	-
Contracts for services	11,037	10,568	-	-
Trade and notes receivables	165,038	132,172	-	-
Prepayments, deposits and other receivables	8,304	10,912	724	418
Cash and cash equivalents	95,577	70,399	4,927	3,682
Pledged short-term deposits	16,061	-	-	-
Due from holding company	916	577	-	-
Due from related parties	4,800	40	-	40
Due from subsidiaries	-	-	221,156	188,810
	335,382	253,778	226,807	192,950
<b>Total assets</b>	<b>837,537</b>	<b>392,994</b>	<b>516,448</b>	<b>193,944</b>
<b>EQUITIES AND LIABILITIES</b>				
Share capital	80,408	67,579	80,408	67,579
Share premium	410,158	102,565	410,133	102,540
Reserves	217,947	158,434	1,155	2,136
Proposed final dividend	19,044	16,454	19,044	16,454
	727,557	345,032	510,740	188,709
Minority interests	558	4,474	-	-
<b>Total Equity</b>	<b>728,115</b>	<b>349,506</b>	<b>510,740</b>	<b>188,709</b>
<b>Non-current liabilities</b>				
Government grants	1,817	2,479	-	-
	1,817	2,479	-	-
<b>Current liabilities</b>				
Interest-bearing loans and borrowings	28,933	10,740	-	-
Trade and notes payables	9,117	9,755	-	-
Accrued liabilities and other payables	64,979	20,381	1,243	1,337
Income tax payable	13	13	-	-
Due to holding company	4,466	-	-	333
Due to related parties	97	120	4,465	-
Due to subsidiaries	-	-	-	3,565
	107,605	41,009	5,708	5,235
<b>Total liabilities</b>	<b>109,422</b>	<b>43,488</b>	<b>5,708</b>	<b>5,235</b>
<b>Total equity and liabilities</b>	<b>837,537</b>	<b>392,994</b>	<b>516,448</b>	<b>193,944</b>

Note:

- 1) Long-term deferred expenditure refers to the Group's investment in a joint venture with Yantai University to set up Yantai Pharmaceutical College. This deferred expenditure is amortised over a period of ten years on a straight line basis.
  
- 2) Acquisition costs of CMNa business  
 As announced on 24 October 2006, the Group has entered into an agreement to acquire the CMNa business. The Group is currently awaiting approval from the relevant authorities for the transfer of the New Medicine Certificate to the Group. The Group is in the process of engaging an independent professional valuer to provide an additional appraisal report on the fair value of the net assets acquired which primarily include intangible assets such as the New Medicine Certificate, patents and trademark for CMNa. The allocation of the purchase consideration will be made to these assets when the appraisal report has been finalised.

**1(b)(ii) Aggregate amount of Group's borrowings and debt securities.**

**Amount repayable in one year or less, or on demand**

**(In RMB'000)**

As at 31.12.2006		As at 31.12.2005	
Secured	Unsecured	Secured	Unsecured
21,933	7,000	8,000	2,740

Included in secured bank loans are bank notes that have been discounted of RMB 6.3 million (FY2005: RMB2.7 million).

**Amount repayable after one year**

**(In RMB'000)**

As at 31.12.2006		As at 31.12.2005	
Secured	Unsecured	Unsecured	Unsecured
-	-	-	-

**Details of any collateral**

As of 31 December 2006, the Group's secured bank loans are secured by the Group's short-term deposits of RMB 16.1 million and discounted bank acceptances of RMB 6.3 million.

1c) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	For the financial year ended	
	31.12.2006	31.12.2005
	RMB'000	RMB'000
<b>Cash flows from operating activities</b>		
<b>Profit before tax and minority interests</b>	<b>85,484</b>	<b>90,381</b>
Adjustments for:		
Interest income	(7,067)	(1,245)
Interest expense	2,051	2,426
Loss on disposal of property, plant and equipment	92	143
Amortisation of long-term deferred expenditures	500	500
Depreciation on property, plant and equipment	13,260	10,493
Amortisation of intangible assets	1,190	1,069
Amortisation of land use rights	160	160
Waiver of dividend by ex-investors of a subsidiary	-	(789)
Write-back of long aged payables	(430)	(923)
Exchange difference on consolidation	(9,693)	(3,162)
	<b>85,547</b>	<b>99,053</b>
Increase in trade and notes receivables	(29,317)	(39,822)
Decrease/(increase) in prepayments, deposits and other receivables	6,288	(5,535)
(Increase)/decrease in amounts due from related parties	(4,760)	21
Increase in amount due from holding company	(339)	(577)
Increase in inventories	(4,539)	(705)
Increase in contracts for services	(469)	(4,220)
Decrease in government grants	(662)	(1,100)
(Decrease)/increase in trade and notes payables	(282)	243
Increase in accrued liabilities and other payables	4,282	3,268
Increase/(decrease) in amounts due to holding company	4,466	(2,585)
Decrease in amounts due to related parties	(23)	-
<b>Cash generated from operating activities</b>	<b>60,192</b>	<b>48,041</b>
Interest paid	(2,051)	(2,426)
Income tax paid	(7,639)	(3)
<b>Net cash flows generated from operating activities</b>	<b>50,502</b>	<b>45,612</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and construction in progress	(8,479)	(28,825)
Proceeds from disposal of property, plant and equipment	11	55
Purchase of intangible assets	(900)	(578)
Investment for CMNa business	(35,716)	-
Purchase of available-for-sale investment	-	(4,035)
Prepayment for acquisition	(288,647)	-
Acquisition of minority interests	(1,211)	(12,454)
Increase in pledged short-term deposits	(16,061)	-
Interest received	7,067	1,245
<b>Net cash flows used in investing activities</b>	<b>(343,936)</b>	<b>(44,592)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	320,422	-
Repayment of short-term borrowings	(59,000)	(49,000)
Proceeds from loans	73,644	-
Equity dividends paid	(16,454)	(14,292)
<b>Net cash flows (used in)/from financing activities</b>	<b>318,612</b>	<b>(63,292)</b>
Net (decrease)/increase in cash and cash equivalents	25,178	(62,272)
Cash and cash equivalents at 1 January	70,399	132,671
<b>Cash and cash equivalents at 31 December</b>	<b>95,577</b>	<b>70,399</b>

<b>Notes to Cash flow statement</b>				
Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:				
		<b>31.12.2006</b>		<b>31.12.2005</b>
Short term deposits		52,577		47,000
Cash and bank balances		59,061		23,399
		111,638		70,399
Less: Pledged short-term deposit for bank loans		(16,061)		-
Cash and cash equivalents		<b>95,577</b>		<b>70,399</b>

**1(d)(i) A statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

Asiapharm Group Ltd & Subsidiaries													
GROUP	Attributable to equity holders of the parent												
	Share capital	Share premium account	Statutory surplus reserves	Statutory public welfare fund	Reserve fund	Enterprise expansion fund	Foreign currency translation reserves	Net unrealised gains reserves	Retained earnings	Proposed final dividend	Total	Minority interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	67,579	102,565	16,135	8,067	-	-	(149)	-	64,377	13,516	272,090	11,293	283,383
Currency realignment	-	-	-	-	-	-	(3,162)	-	-	-	(3,162)	-	(3,162)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	(3,162)	-	-	-	(3,162)	-	(3,162)
Net profit for the year	-	-	-	-	-	-	-	-	89,620	-	89,620	544	90,164
Total income and expense for the year	-	-	-	-	-	-	(3,162)	-	89,620	-	86,458	544	87,002
Final 2004 dividend declared	-	-	-	-	-	-	-	-	-	(13,516)	(13,516)	-	(13,516)
Acquisition of minority interest	-	-	-	-	-	-	-	-	-	-	-	(7,363)	(7,363)
Transfer to statutory reserves	-	-	337	168	9,460	4,730	-	-	(14,695)	-	-	-	-
Proposed 2005 final dividend	-	-	-	-	-	-	-	-	(16,454)	16,454	-	-	-
<b>At 31 December 2005</b>	<b>67,579</b>	<b>102,565</b>	<b>16,472</b>	<b>8,235</b>	<b>9,460</b>	<b>4,730</b>	<b>(3,311)</b>	<b>-</b>	<b>122,848</b>	<b>16,454</b>	<b>345,032</b>	<b>4,474</b>	<b>349,506</b>
<b>Fair value change on available-for-sale investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,559</b>	<b>-</b>	<b>-</b>	<b>4,559</b>	<b>-</b>	<b>4,559</b>
Currency realignment	-	-	-	-	-	-	(9,693)	-	-	-	(9,693)	-	(9,693)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	(9,693)	4,559	-	-	(5,134)	-	(5,134)
Net profit for the year	-	-	-	-	-	-	-	-	83,691	-	83,691	(2,779)	80,912
Total income and expense for the year	-	-	-	-	-	-	(9,693)	4,559	83,691	-	78,557	(2,779)	75,778
Final 2005 dividend declared	-	-	-	-	-	-	-	-	-	(16,454)	(16,454)	-	(16,454)
Issue of share	12,829	312,737	-	-	-	-	-	-	-	-	325,566	-	325,566
Share issue expense	-	(5,144)	-	-	-	-	-	-	-	-	(5,144)	-	(5,144)
Acquisition of minority interest	-	-	-	-	-	-	-	-	-	-	-	(1,137)	(1,137)
Transfer to statutory reserves	-	-	-	-	7,736	-	-	-	(7,736)	-	-	-	-
Transfer to statutory reserves	-	-	8,235	(8,235)	-	-	-	-	-	-	-	-	-
Proposed final 2006 dividend	-	-	-	-	-	-	-	-	(19,044)	19,044	-	-	-
<b>At 31 December 2006</b>	<b>80,408</b>	<b>410,158</b>	<b>24,707</b>	<b>-</b>	<b>17,196</b>	<b>4,730</b>	<b>(13,004)</b>	<b>4,559</b>	<b>179,759</b>	<b>19,044</b>	<b>727,557</b>	<b>558</b>	<b>728,115</b>

Asiapharm Group Ltd & Subsidiaries						
<b>COMPANY</b>						
	Share capital	Share premium account	Foreign currency translation reserves	Retained earnings	Proposed final dividend	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	67,579	102,540	222	406	13,516	184,263
Currency realignment	-	-	(4,431)	-	-	(4,431)
Total income and expense for the year recognised directly in equity	-	-	(4,431)	-	-	(4,431)
Net Profit for the year	-	-	-	22,393	-	22,393
Total income and expense for the year	-	-	(4,431)	22,393	-	17,962
Final 2004 dividend declared	-	-	-	-	(13,516)	(13,516)
Proposed final 2005 dividend	-	-	-	(16,454)	16,454	-
<b>At 31 December 2005</b>	<b>67,579</b>	<b>102,540</b>	<b>(4,209)</b>	<b>6,345</b>	<b>16,454</b>	<b>188,709</b>
Currency realignment	-	-	(13,354)	-	-	(13,354)
Total income and expense for the year recognised directly in equity	-	-	(13,354)	-	-	(13,354)
Net Profit for the year	-	-	-	31,417	-	31,417
Total income and expense for the year	-	-	(13,354)	31,417	-	18,063
Issue of share	12,829	312,737	-	-	-	325,566
Share issue expense	-	(5,144)	-	-	-	(5,144)
Final 2005 dividend declared	-	-	-	-	(16,454)	(16,454)
Proposed final 2006 dividend	-	-	-	(19,044)	19,044	-
<b>At 31 December 2006</b>	<b>80,408</b>	<b>410,133</b>	<b>(17,563)</b>	<b>18,718</b>	<b>19,044</b>	<b>510,740</b>

## **Note to Statement of changes in equity**

### Luye R&D, Luye Trading and JZT

In accordance with the Company Law of PRC, Luye R&D, Luye Trading and JZT are required to allocate 10% of its profit after tax, as determined in accordance with the articles of association of Luye R&D, Luye Trading and JZT, to the statutory surplus reserve (“SSR”) until such reserve reaches 50% of the registered capital of the PRC subsidiaries. Subject to certain restrictions set out in the Company Law of PRC, part of the SSR may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of PRC, Luye R&D and Luye Trading were required to transfer 5% to 10% of its profit after tax, as determined in accordance with the articles of association of Luye R&D and Luye Trading, to its statutory public welfare fund (“PWF”) which is a non-distributable reserve other than in the event of liquidation of the PRC subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the properties of the PRC subsidiaries.

According to the revised Company Law of the PRC effective from 1 January 2006, Luye R&D, Luye Trading and JZT are no longer required to transfer their profit after tax to PWF. The outstanding balance of PWF as at 31 December 2005 was transferred into the SSR.

### Shandong Luye

Prior to 1 January 2005, Shandong Luye appropriated its profit after tax to the SSR and PWF according to the Company Law of the PRC. Shandong Luye was converted into a wholly foreign owned enterprise in 2005, and, in accordance with the relevant rules applicable to foreign investment enterprise and its articles of association, Shandong Luye is required to appropriate 10% and 5% of its profit after tax to the reserve fund and enterprise expansion fund, respectively, instead of to the SSR and PWF. Reserve fund can be used to offset losses and increase capital as approved. Enterprise expansion fund must be used to expand production or operations and to increase capital as approved.

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

<b>Details of any changes in the Company's issued share capital</b>	<b>Number of Shares</b>	<b>Resultant Capital (US\$)</b>
Fully-paid ordinary shares of US\$0.02 each as at 1 January 2006	407,764,900	8,155,298
Issue of 80,000,000 new ordinary shares of US\$0.02 each pursuant to the Placement Exercise on 9 May 2006	80,000,000	1,600,000
Fully paid ordinary shares of US\$0.02 as at 9 May 2006	487,764,900	9,755,298

- 2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the Group's auditors.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the year ended 31 December 2005.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect or give rise to additional disclosures on the financial statements of the Group.

- IAS 19 Amendment – Employee Benefits
- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRIC 4 Determine whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The principle effects of these changes are as follows:

(a) IAS 19 Employee Benefits

As of 1 January 2006, the Group adopted the amendments to IAS 19, which requires entities who participate defined benefits plans to make additional disclosures providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. As the Company and its subsidiaries participate in statutory defined contribution retirement plans in their respective jurisdiction, this change did not have an effect on the financial statements.

(b) IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

(c) IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) – amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

(d) IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

(e) IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements.

- (f) IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The Group adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. As the entity does not currently participate in this specific market nor have any operation in a jurisdiction that implements the EU Directive, this interpretation has had no impact on the financial statements.

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

- IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosure
- IFRS 7 Financial instruments: Disclosure
- IFRS 8 Operating Segments;
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim financial Reporting and Impairment
- IFRIC 11 IFRS2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

**6. Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	<b>31.12.2006</b>	<b>31.12.2005</b>
Net Profit attributable to shareholders (RMB'000)	83,691	89,620
Basic EPS (RMB cents)	18.21	21.98
Diluted EPS (RMB cents)	18.21	21.98
Number of shares in calculating EPS	459,710,105	407,764,900

Earnings per ordinary share for the financial year ended 31 December 2006 is computed based on the weighted average number of shares in issue of 459,710,105 shares whereas earnings per ordinary share for the financial year ended 31 December 2005 is computed based on the weighted average number of shares of 407,764,900 shares.

For the purpose of meaningful comparison only, earnings per ordinary share for the financial years ended 31 December 2006 and 31 December 2005 computed based on actual number of shares in issue of 487,764,900 shares and 407,764,900 shares, respectively, would be as follows:

	31.12.2006		31.12.2005	
Net Profit attributable to shareholders (RMB'000)		83,691		89,620
Basic EPS (RMB cents)		17.16		21.98
Diluted EPS (RMB cents)		17.16		21.98
Number of shares in calculating EPS		487,764,900		407,764,900

**7. Net asset value (for the issuer and Group) per ordinary share based on issued share capital of the issuer at the end of the:-**

- (a) current financial period reported on; and**  
**(b) immediately preceding financial year.**

	Group		Company	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Net Asset	727,557,000	345,032,000	510,740,000	188,709,000
Net asset value (RMB cents)	149.16	84.62	104.71	46.28
Number of Shares in calculating NAV	487,764,900	407,764,900	487,764,900	407,764,900

(a) Net asset value per ordinary share for the Group for the current financial period is calculated by dividing Group net asset of RMB 727.6 million by the actual number of shares of US\$0.02 each. Net asset value per ordinary share for the Company for the current financial period is calculated by dividing the Company's net asset of RMB 510.7 million divided by the actual number of shares of US\$0.02 each.

(b) Net asset value per ordinary share for the Group for the immediately preceding financial year is calculated by dividing Group net asset of RMB 345.0 million by actual number of shares of US\$0.02 each. Net asset value per ordinary share for the Company for the immediately preceding financial year is calculated by dividing the Company's net asset of RMB 188.7 million divided by actual number of shares of US\$0.02 each.

8. **A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:-**
- (a) any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
  - (b) any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on.**

## **Revenue**

### **Fourth Quarter Performance**

The Group experienced a fall in revenue in the fourth quarter of FY2006 ("4QFY2006") of RMB 19.7 million or 20.3% as compared to 4QFY2005. The decrease in revenue can be mainly attributed to lower sales of our pharmaceutical drugs, lower export sales and distribution sales of other companies' drugs,

Sales of our Group's pharmaceutical drugs in 4QFY2006 reduced by RMB 15.1 million or 16.8% as compared to 4QFY2005. The fall in revenue for 4QFY2006 was mainly due to lower sales of Maitongna of RMB 14.3 million which represented a reduction of 36.2% for reasons as explained in our half year and nine-month result announcements and challenging market conditions. Also, sales of Lutingnuo reduced by RMB 4.6 million or 14.4% due to the challenging market conditions. Despite the reduction in contribution from Maitongna and Lutingnuo, the situation was mitigated by higher contribution from drug sales of Nuosen (15.4%) and Sidinuo (145.4%). Contributions of RMB 3.6 million from two months of CMNa sales – the patented cancer treatment drug acquired in October 2006 – further cushioned the reduction in total revenue.

Distribution sales of other companies' drugs continued to decline by RMB 0.2 million or 28.4% to RMB 0.4 million in 4QFY2006.

In line with the Group's decision to focus our R&D resources for the development of our own drugs, sales of R&D results decreased by RMB 2.4 million or 218.4% as R&D sales of two drugs and its distribution network amounting to RMB 6.0 million included in 3QFY2006 were reclassified to "other income" in 4QFY2006 and were offsetted against the sales of R&D results for two drugs which did not belong to the core focus of the Group's new product development purposes.

As the Group continues to strategically reduce export sales of active ingredients due to its low margin and higher credit risks, export sales of active ingredients reduced significantly by RMB 2.0 million or 36.4% in 4QFY2006.

### **Full year Performance**

The Group experienced a fall in revenue for the financial year ended 31 December 2006, with a decrease in revenue of RMB 36.1 million or 10.5% as compared to the last financial year. The decrease in revenue can be mainly attributed to lower sales of our pharmaceutical drugs, lower export sales and distribution sales of other companies' drugs.

Sales of our Group's pharmaceutical drugs in FY2006 declined by RMB 22.1 million or 7.4% as compared to FY2005. The fall in revenue for FY2006 was mainly due to lower sales of Maitongna of RMB 31.0 million which represented a reduction of 24.2% for reasons as explained in our half year and nine-month result announcements and challenging market conditions. The fall in revenue was partially offset by the increase in the sale of Lutingnuo (0.7%), Nuosen (23.5%) and Sidinuo (97.3%). Contributions of RMB 3.6 million from two months of CMNa sales – the patented cancer treatment drug acquired in October 2006 – further cushioned reductions in total revenue.

Distribution sales of other companies' drugs continued to decline by RMB 0.8 million or 25.5% to RMB 2.2 million for FY2006.

In line with the Group's decision to focus our R&D resources for the development of our own drugs, sales of R&D results decreased by RMB 4.0 million or 21.3% as R&D sales of two drugs and its distribution network amounting to RMB 6.0 million included in 3QFY2006 was reclassified to "other income" in 4QFY2006 were offsetted by the Group's disposal of the R&D results for two drugs which do not belongs to the core focus of the Group's new product development purposes.

As the Group continues to strategically reduce export sales of active ingredients due to its low margin and higher credit risks, export sales of active ingredients reduced significantly by RMB 9.2 million or 37.1% for FY2006.

### **Gross profit**

#### **Fourth Quarter Performance**

The Group's fourth quarter gross profit declined by RMB 16.3 million or 20.9% from RMB 78.2 million in 4QFY2005 to RMB 61.9 million in 4QFY2006 due mainly to the decrease in sales and the RMB 6.0 million reclassification of R&D sales to "other Income". Gross profit margin decreased slightly by 0.5 percentage points, from 80.8% in 4QFY2005 to 80.3% in 4Q FY2006 due mainly to the reclassification of R&D sales of RMB 6.0 million to "other Income".

### **Full Year Performance**

The Group's FY2006 gross profit declined by RMB 23.1 million or 8.6% from RMB 267.9 million to RMB 244.8 million, in line with the fall in Group revenue. Gross profit margin increased by 1.6 percentage points, from 77.8% last year to 79.4% due mainly to our efforts in changing the sales mix to focus in the sale of pharmaceutical drugs, which commanded a higher gross profit margin.

### **Operating expenses**

#### **Fourth Quarter Performance**

Selling and distribution expenses decreased by 9.1% from RMB 42.2 million to RMB 38.4 million due mainly to the decrease in sales activities of pharmaceutical drugs. Administrative expenses increased by 123.6% from RMB 6.2 million to RMB 13.8 million due mainly to an increase in our corporate activities and additional provision of RMB 6.0 million made in view of the challenging market conditions. Other expenses increased by 108.2% or RMB 2.9 million due mainly to the Group's decision to focus more on R&D on our product development and pipeline resulting in less R&D expenses allocated as direct expense under Cost of Goods Sold.

### **Full Year Performance**

Selling and distribution expenses decreased by 11.1% from RMB 145.7 million to RMB 129.6 million due mainly to the decrease in the sales activities of pharmaceutical drugs. Administrative expenses increased by 49.7% from RMB 21.6 million to RMB 32.4 million due mainly to an increase in our corporate activities and additional provision of RMB 6.0 million made in view of the challenging market conditions. Other expenses increased by RMB 5.3 million or 41.5% due mainly to the Group's decision to focus more on R&D on our product development and pipeline resulting in less R&D expenses allocated as direct expense under Cost of Goods Sold.

### **Profitability**

#### **Fourth Quarter Performance**

Net profit after tax and minority interests decreased by RMB 7.0 million or 23.8% to RMB 22.6 million primarily due to:

- (i) decrease in total revenue of approximately RMB 19.7 as explained above;
- (ii) increase in taxation of RMB 2.1 million as full tax exemption of our main operating subsidiary ended in FY2005; and
- (iii) increase in administrative expenses of RMB 7.6 million and other expenses of RMB 2.9 million as explained above; offset by
- (iv) decrease in distribution expense of RMB 3.8 million as explained above;
- (v) increased in other income due mainly to currency exchange gain;
- (vi) increase in interest revenue of RMB 1.6 million; and
- (vii) increase in share of losses by minority interest of RMB 2.6 million.

### **Full Year Performance**

Net profit after tax and minority interests decreased by RMB 5.9 million or 6.6% to RMB 83.7 million due to:

- (i) decrease in total revenue of approximately RMB 36.1 as explained above;
- (ii) increase in taxation of RMB 4.4 million as full tax exemption of our main operating subsidiary ended in FY2005; and
- (iii) increase in administrative expenses of RMB 10.8 million and other expenses of RMB 5.3 million as explained above; offset by
- (iv) decrease in distribution expenses of RMB 16.1 million as explained above;
- (v) increased in other income due mainly to currency exchange gain and a RMB 6 million sale of 2 non-core drugs;
- (vi) increase in interest income of RMB 5.8 million; and
- (vii) increase in share of losses by minority interest of RMB 3.3 million.

### **Balance sheet**

There is no material variance for the balance sheet items between 31 December 2005 and 31 December 2006 except for the following:

- (i) Property, plant and equipment decreased by RMB 8.2 million due mainly to the depreciation charge for the year of RMB 13.3 million offset by additions for the year;
- (ii) Available-for-sale investments increased by RMB 4.6 million, representing the unrealised gain of shares in Napo Pharmaceuticals following its listing on the London Stock Exchange. The gain is charged directly to equity as unrealised gain.;
- (iii) Long-term deferred expenditures decreased by RMB 0.5 million to RMB 3.8 million as a result of an amortisation charge for the year;
- (iv) Intangible assets decreased by RMB 0.3 million due mainly to the additions of RMB 0.9 million intangible assets offset by amortisation for the year of RMB 1.2 million;
- (v) Prepayment for acquisition increased by RMB 288.6 million as a result of prepayment made for the acquisition of the Nanjing companies as announced on 3 January 2007;
- (vi) Acquisition costs of CMNa business increased significantly by RMB 76.5 million resulting from unallocated cost of acquisition of the CMNa business;
- (vii) Inventories increased by RMB 4.5 million to RMB 33.6 million partly due to higher amount of finished goods held, in particular the newly acquired CMNa as the Group has yet to commence manufacturing of CMNa;
- (viii) Contract for services increased by RMB 0.4 million to RMB 11.0 million as a result of higher amount of R&D costs incurred but yet to be billed and revenue recognised but not yet billed;

- (ix) Trade and note receivables increased by RMB 32.8 million to RMB 165.0 million due to the slower debtors' turnover in pharmaceutical sales, as well as the high R&D receivables that is not yet due for payment;
- (x) Prepayments, deposits and other receivables decreased by RMB 2.6million to RMB 8.3 million due mainly to the following:
  - a. decrease in prepayment of RMB 6.7 million mainly for the purchase of raw materials; offset by
  - b. increase in prepaid taxes of RMB 1.8 million due mainly to prepaid income taxes for two of the PRC subsidiaries; and
  - c. increase in advances and other recievables of RMB 2.2 million
- (xi) Cash and cash equivalentents increased by RMB 25.2 million to RMB 95.6 million due mainly to the following;
  - a. positive cashflow generated from operating activities
  - b. proceeds from placement shares of RMB 320.0 million;
  - c. net increase in interest-bearing loans and borrowings for working capital purposes of RMB 14.6 million; offset by
  - d. prepayment for acquisition of Nanjing companies amounting to RMB 288.6 million
  - e. acquisition of intangible assets for the CMNa business of RMB 36.2 million; and
  - f. payment of 2005 final dividend of RMB 16.5 million.
- (xii) Pledged short-term deposits increased by RMB 16.0 million as a security for the loan undertaken by our main operating subsidiary;
- (xiii) Amount due from related parties increased by RMB 4.8 million mainly due to the balance payment of RMB 4.8 million from Wuhu Luye Pharmaceutical Co. for the sale of 2 drugs and its networks for RMB 6.0 million;
- (xiv) Current portion of interest-bearing loans and borrowings was increased by RMB 18.2 million as a result of net proceeds of bank loans secured for working capital purposes;
- (xv) Accrued liabilities and other payables increased by RMB 44.6 million to RMB 65.0 million due mainly to a balance payment of RMB 41.0 million for the acquisition of CMNa business.
- (xvi) Amount due to/from a holding company increased by RMB 4.5 million as a result of expenses paid on behalf during the year.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

Not applicable.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

Concerned with the availability and the affordability of basic healthcare to the growing population in PRC, the government had disclosed its aims to restructure the healthcare sectors by:

- (i) expanding the National Health Insurance (“NHI”) scheme from 140 million people to 300 million by 2010;
- (ii) implementation of various measures to control the percentage of revenue for hospitals from the sales of prescription drugs.

In an over-reaction to the government’s intention, PRC hospitals implemented the following temporary measures: :

- (i) restricting sales representative from visiting doctors and disallowing doctors from attending drug promotion activities thereby, affecting prescription drug sales as well as cross-selling of drugs in different specialisation;
- (ii) suspending the purchase of drugs that is not under their current stocklist, affecting sales of newly approved/launched products.

As a result of the above mentioned measures by the hospitals, our Group’s revenue from sales of pharmaceutical drugs, and to a lesser extent, our profits were temporarily affected. However, in the long run, it will be beneficial for the industry and our Group following the expansion of the NHI scheme and consolidation of less competitive companies.

On the regulatory front, the SFDA has revoked the GMP/GSP license of several pharmaceutical companies after the recent much-publicised cases of non-compliance. At the same time, the SFDA is also making efforts to align its drug approval process to those of the FDA in the United States. The more stringent approach will increase the time, costs and risks of non-approval of drugs. This will benefit manufacturers such as AsiaPharm who have strong R&D capabilities and capacity to develop proprietary drugs which will command a higher value. Smaller research facilities who are unable to compete in this new environment, will likely be eliminated.

The Directors believe that the Group’s strategy for pharmaceutical drugs will be driven by the following factors:

- (i) full year sales contribution from the drugs acquired in our Nanjing acquisition announced on 3 January 2007;
- (ii) full year sales contribution from CMNa, the patented cancer drug acquired in October 2006;
- (iii) integration and further development of the CMNa business and Nanjing companies acquired to strengthen the Group’s positioning in the Oncology sector and hopefully produce synergistic outcomes;
- (iv) recovery in sales of Maitongna as more hospitals will switch to using the 5mg/10mg dosages;
- (v) increase in selling efforts of Lutingnuo and Nuosen to achieve steady growth despite the

challenging conditions;

- (vi) our other products, Sidinuo (Elcatonin for injection), Okai and Pantoprazole Pellets Capsule will provide new growth impetus;
- (vii) our newly launched drug, Ximingting, a safe, natural alternative to the chemical drugs used for Hormone Replacement Therapy (“HRT”) will become an important drug for our Group in the future;
- (viii) our Group’s newly launched products, Capasicin gel (Otong) and Dioctahedral Smectite Disperse Tablet (Salimai) together with Olai will form the over-the-counter (“OTC”) drug portfolio that drives our future OTC growth; and
- (ix) the restructuring of Luye Drugs Trading and its subsidiary, JZT, our trading subsidiaries in the PRC, to focus on our own drugs and distribute imported drugs with higher margin.

As part of our ongoing effort to increase our sales of domestic pharmaceutical drugs, we will continue with our current initiatives by:

- (i) introducing new pharmaceutical drug(s) annually, and extending our reach of the pharmaceutical drug market by expanding our distribution network and usage of our pharmaceutical drugs in hospitals; and
- (ii) increasing product penetration within the different specialisation of approximately 2500 hospitals we serve.

For R&D sales, we will continue to do the following:

- (i) devote more resources towards R&D for our future product pipeline;
- (ii) continue to provide third party R&D contract services and transfer of technology; and
- (iii) actively looking for foreign partners to co-develop new products.

The Group has embarked on and will continue to increase our overseas pharmaceutical sales by:

- (i) focusing on sales of pharmaceutical drugs to Vietnam, Pakistan and development of new markets in other Asian countries;
- (ii) working toward attaining the Good Manufacturing Practice (“GMP”) under the United States Food and Drug Administration (“FDA”), the Australian Therapeutic Goods Administration (“TGA”) and/or the European Union’s EMEA standards; and
- (iii) forming strategic alliance with international pharmaceutical companies to eventually manufacture and distribute new products jointly in the Asia Pacific region and Europe.

Following its acquisition of CMNa business in FY2006 and Nanjing Kanghai and Nanjing Sike subsequently in 2007, the Group will continue to explore opportunities, both locally and overseas, for possible acquisition of products as well as merger and acquisition of companies with high profit earning potential, similar product and specialisation and synergies to the Group.

The Group remains optimistic that by leveraging on our existing portfolio of proprietary drugs/product pipeline, strong distribution network and R&D platform, AsiaPharm will forge ahead of the competition and overcome obstacles despite the current market conditions.

As stated in the Prospectus under “Risk Factors” relating to the industry in which the Group operates, the Directors wish to inform that to the best of the Directors’ knowledge, it is presently possible to procure insurance coverage for product liabilities arising from the manufacture or sale of drugs in the PRC. We have since procured insurance coverage in December 2006 for our existing drugs and drugs under development at reasonable terms acceptable to us.

## 11. Dividend

### **(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on?

Yes. Please see below for details.

Name of Dividend	First and Final Dividend
Dividend Type	Cash
Dividend Amount per Share (in cents)	US\$0.005
Optional:- Dividend Rate (in %)	25%
Par value of shares	US\$0.02
Tax Rate	Tax not applicable

### **(b) Corresponding Period of the Immediately Preceding Financial Year**

Any dividend declared for the corresponding period of the immediately preceding financial year?

Yes. Please see below for details.

Name of Dividend	First and Final Dividend
Dividend Type	Cash
Dividend Amount per Share (in cents)	US\$0.005
Optional:- Dividend Rate (in %)	25%
Par value of shares	US\$0.02
Tax Rate	Tax not applicable

### **(c) Date payable**

To be announced at a later date.

### **(d) Books closure date**

To be announced at a later date.

## 12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable

**PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT**

(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

13. **Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

**(i) Business segment**

2006	Sales of drugs	Sales of R&D results	Sales of active ingredients	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	277,808	14,877	15,609	308,294
Segment results	94,640	(2,892)	176	91,924
Unallocated corporate expenses				(27,081)
Other operating income				15,762
Finance revenue				7,067
Finance costs				(2,188)
Profit before income tax				85,484
Income tax				(4,572)
Minority interests				2,779
Net profit attributable to shareholders				83,691
<b>Other segment information:</b>				
Depreciation of property, plant and equipment	11,104	2,150	6	13,260
Amortisation of intangible assets	1,689	-	-	1,689
Amortisation of land use rights	160	-	-	160
Unallocated corporate expenses includes:				
Amortisation of long term deferred expenditures	-	-	-	500
<b>2005</b>				
2005	Sales of drugs	Sales of R&D results	Sales of active ingredients	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	300,608	18,939	24,821	344,368
Segment results	92,625	3,163	324	96,112
Unallocated corporate expenses				(8,315)
Other operating income				3,828
Finance revenue				1,245
Finance costs				(2,489)
Profit before income tax				90,381
Income tax				(217)
Minority interests				(544)
Net profit attributable to shareholders				89,620
<b>Other segment information:</b>				
Depreciation of property, plant and equipment	8,824	1,661	8	10,493
Amortisation of intangible assets	1,069	-	-	1,069
Amortisation of land use rights	160	-	-	160
Unallocated corporate expenses includes:				
Amortisation of long term deferred expenditures	-	-	-	500

(ii) **Geographical segment**

	<b>PRC</b>	<b>Non-PRC</b>	<b>Total</b>
<b>2006</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>
<b>Revenue</b>	302,294	6,000	308,294
<b>2005</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>
<b>Revenue</b>	331,830	12,538	344,368

**14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

For business segment, sales of pharmaceutical drugs (including distribution sales of third party drugs) decreased by RMB 22.7 million and now contributes 90.1% of total revenue in FY2006 as compared to 87.3% of total revenue in FY 2005. This is in line with our previous disclosure on the management's intent to changing the sales mix to focus in the sale of pharmaceutical drugs, which commanded a higher gross profit margin. Following the change of focus to develop drugs for our own development, R&D sales also decreased by RMB 4.0 million for FY2006.

For geographical segments, the PRC segment accounted for the bulk of the revenue reaching RMB 302.3 million while the Non-PRC revenue accounted for RMB 6.0 million. The decrease in the PRC revenue is consistent with the decrease in sales of drugs, which are sold predominantly in PRC in the current challenging market conditions. The decrease in the Non-PRC revenue of RMB 6.5 million can be attributed to the decrease in sales of active ingredients sold directly to customers outside PRC in line with our Group's strategy on focusing on pharmaceutical drug sales.

**15. A breakdown of sales.**

<b>Breakdown of sales</b>				
	<b>FY 2006</b>	<b>FY 2005</b>	<b>Increases/(Decreases)</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>%</b>
Revenue for first half of the year	153,079	162,892	(9,813)	-6.0%
Operating profit after tax for the first half of the year	40,938	40,063	875	2.2%
Revenue for second half of the year	155,215	181,476	(26,261)	-14.5%
Operating profit after tax for the second half of the year	39,974	50,101	(10,127)	-20.2%

**16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Total Annual Dividend

	Latest Full Year ()	Previous Full Year ()
Ordinary	US\$2,438,824.50	US\$2,038,824.50
Preference	-	-
Total:	US\$2,438,824.50	US\$2,038,824.50

**17. Interested party transactions**

For the current period reported on, the interested person transactions are as follows:

- a. On 30 May 2006, the Group announced that its wholly-owned subsidiary, Shandong Luye Pharmaceutical Co., Ltd ("Shandong Luye") has acquired the remaining 20% minority interest shareholding in Shandong Luye's subsidiary, Yantai Luye Drugs Trading Co. Ltd ("LDT") for RMB 1.2 million. The selling party and their respective shareholdings of the 20% minority interests are Ms Wang Cui Lian (14%), Mr Yang Rongbing (3%) and Mr Yuan Huixian (3%). Mr Yang and Mr Yuan are Directors of the Group, while Ms Wang is the wife of Mr Liu Dianbo, Executive Chairman of the Group. The transaction was arrived at a willing buyer, willing seller basis and the consideration was negotiated at arm's length basis and is based on a valuation conducted by an independent valuer.
- b. On 1 June 2006, the Group's wholly-owned subsidiary, Shandong Luye Pharmaceutical Co., Ltd ("Shandong Luye"), during its normal course of business, sold away the manufacturing permits, new drug certifications and the sales and distribution network of 2 non-core products, Naodesheng and Qiyeshengan to Wuhu Luye Pharmaceutical Co., Ltd ("Wuhu Luye") for RMB 6.0 million.

Wuhu Luye is 45% owned by Luye Group, which is 70% owned by Mr Liu Dianbo, Executive Chairman of the Group and 15% each owned by Mr Yuan Huixian and Mr Yang Rongbing, Directors of the Group. Mr Liu Dianbo is a Non-Executive Director of Wuhu Luye. Mr Yang Rongbing, Non-Executive Director of the Group, is an Executive Director of of Wuhu Luye. Wuhu Luye is engaged in the manufacture of traditional Chinese Medicines.

The transaction was arrived at a willing buyer, willing seller basis and the consideration was negotiated at arm's length basis and is based on a valuation conducted by an independent valuer.

The Group had not entered into any other new interested party transactions, other than certain transactions of which the value was below S\$100,000, during the year ended 31 December 2006. The Company also does not have a general shareholders' mandate on interested person transactions pursuant to Rule 920 of the Listing Manual.

#### **18 Use of Placement Proceeds**

The proceeds from the placement exercise in May 2006 have been fully utilised in the acquisition of Solid Success Holdings Limited and CMNa Business announced on 24 October 2006 and 4 January 2007 respectively.

#### **BY ORDER OF THE BOARD**

**Liu Dianbo**  
**Executive Chairman**  
**28.2.2007**