利君國際醫藥
(控股)有限公司
Lijun International Pharmaceutical (Holding) Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

Stock Code : 2005

Annual Report

2007

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Wu Qin *(Chairman)*
Mr. Qu Jiguang
Mr. Wu Zhihong
Mr. Huang Chao
Mr. Xie Yunfeng
Ms. Sun Xinglai
Mr. Wang Xianjun
Mr. Duan Wei
Mr. Wang Zhizhong
Ms. Zhang Guifu

NON-EXECUTIVE DIRECTOR

Mr. Liu Zhiyong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Lam Yiu Por

REGISTERED OFFICE

Cricket Square, Hutchins Drive,
P.O. Box 2681 GT, Grand Cayman,
KY1-1111, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office 2809, 28th Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wu Zhihong
Ms. Sun Xinglai

AUDIT COMMITTEE

Mr. Chow Kwok Wai *(Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun *(Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
P.O. Box 705, Butterfield House, 68 Fort Street
George Town, Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1806-1807, 18th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Bank of China
Bank of China (Hong Kong)
Industrial and Commercial Bank of China
China Construction Bank
China Construction Bank (Asia)
China Merchants Bank
China Minsheng Banking Corp., Ltd.
CITIC Industrial Bank
Hang Seng Bank

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITORS

PricewaterhouseCoopers

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Lijin International Pharmaceutical (Holding) Co., Ltd. (the "Company") , I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

1. RESULTS AND DIVIDEND PAYMENT

During the year, the sales income amounted to RMB1,105,846,000, representing an increase of 28.5% as compared to last year. Profit attributable to shareholders of the Group increased by 37.2% to approximately RMB116,007,000 as compared to the corresponding period last year. The Board proposed a final dividend of HK$0.006 per share.

2. BUSINESS REVIEW

The operation environment of the pharmaceutical industry in the PRC showed distinct improvements in 2007 as the State's policies promulgated in 2006 started to take effect, including efforts in reforming the pharmaceutical sales market, enhancement of the operation environment, increased investments in medical insurance system by the government and widened coverage by the medical insurance system. On the other hand, benefiting from the completion of acquisition of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma"), the overall business of the Group significantly improved. Enjoying an immediate expansion of its scale of assets and profit base, the Group shook off the past excessive dependence on antibiotics market, and commenced the business of intravenous infusion products, which demands higher quality and more advanced technological levels, forming an important cornerstone for the future development of the Group.

Stable growth of the antibiotics business: During the year, sales of antibiotics reached RMB641,653,000, representing an increase of 3.4% as compared to the corresponding period last year. Of which, our core product, Lijunsha, generated sales of RMB416,899,000, similar to that of last year. Paiqi, a third generation antibiotics, recorded sales of RMB87,259,000, representing an increase of 7.7% from last year. Other antibiotics achieved satisfactory growth, with a 9.0% growth of sales from last year to RMB137,495,000.

Intravenous infusion business attained fast growth: After becoming a part of our business profile, the intravenous infusion business of Shijiazhuang No. 4 Pharma to our business profile maintained smooth operation and successfully realized the annual profit objectives set out upon acquisition of the business. The profits after tax was RMB86,059,000 for the year ended 31 December 2007, which is 22.9% higher than the guaranteed profits of RMB70,000,000. In response to the trend of intravenous infusion packaging, the Group has substantially boosted the production capacity and volume of infusion products in PP plastic bottle and non-PVC soft bag packing during the year. The production volume of infusion products in PP plastic bottle marked an increase 67% from last year, and that of non-PVC soft bag packing recorded an even more remarkable growth of 2.3 times, making us one of the largest players among the manufacturers of infusion products in non-PVC soft bag packing in the PRC.

Rapid growth of other pharmaceuticals: Benefiting from the State's medical system reform and increased investments in the city and rural medical insurance system by the government, the general medicine products produced by the Group attained rapid growth. Sales for the year reached RMB201,384,000, representing an increase of 26.0% as compared to last year, recording double-digit growth for the second consecutive year.

3. OUTLOOK

1. Intravenous infusion products will become the main driving force for the Group's future growth: Given that the Group's intravenous infusion products have attained leading international standards in terms of production, technologies, management and product quality, the sales of the products was robust in the medium to large scaled hospitals in the PRC. In the coming year, the Group will continue to expand its production scale and increase the production capacity for infusion products in non-PVC soft packing and PP plastic bottle, with the objective to tap the high-end market. The Group believes that intravenous infusion products will achieve rapid growth in the coming years and become the main driving force of the Group's business.

2. Maintain the leading market position of Macrolide antibiotics: Through continuous effort in expanding the rural and city community markets, the Group strives to maintain the leading market position of Macrolide antibiotics, including the king product in the category, Lijunsha. We will also continue to expand the market share in the city market of the third generation product, Paiqi, in order to sustain the growth of the third generation product.

3. Maintain the rapid growth in other pharmaceutical products: Capitalizing the opportunities brought by the State's establishment of the new city community and rural medical insurance system, the Group will leverage on its brand advantages to reinforce penetration into these markets and thereby sustaining the continuous rapid growth in general medicine products.

4. Launch of OTC products and healthcare products: With the completion of the production line for soft capsule products and oral solution, the Group will progressively launch a series of OTC products and healthcare products in the market in the coming year. Lijungai products have made initial debut and has progressively gained popularity through advertising and other means of promotion, forming a new growth point for the Group's business.

In general, the Company is optimistic about our business growth in 2008. On behalf of the Board, I hereby express our sincere gratitude to our investors and employees for their dedicated support.

Wu Qin
Chairman

Hong Kong, 25 April 2008

SALES

As at 31 December 2007, the sales of the Group amounted to approximately RMB1,105,846,000, representing an increase of 28.5% as compared with RMB860,641,000 in last year. A breakdown of the sales of the Group for the year ended 31 December 2007 is set out as follows:

	2007		2006		**Change**
	RMB'000	**%**	*RMB'000*	%	**%**
Antibiotics					
Lijunsha	**416,899**	**37.7**	413,338	48.0	**0.9**
Paiqi	**87,259**	**7.9**	80,996	9.4	**7.7**
Others Antibiotics Finished Products	**137,495**	**12.4**	126,188	14.7	**9.0**
Sub-total	**641,653**	**58.0**	620,522	72.1	**3.4**
Intravenous Infusion Solution	**211,087**	**19.1**	—	—	**—**
Non-antibiotics Finished Products	**201,384**	**18.2**	159,889	18.6	**26.0**
Others	**51,722**	**4.7**	80,230	9.3	**-35.5**
Total	**1,105,846**	**100.0**	860,641	100.0	**28.5**

ANTIBIOTICS

In 2007, sales of Lijunsha increased by 0.9% to RMB416,899,000 (2006: RMB413,338,000), sales of Paiqi increased by 7.7% to RMB87,259,000 (2006: RMB80,996,000) and sales of others antibiotics finished products increased by 9.0% to RMB137,495,000 (2006: RMB126,188,000). Overall sales of antibiotics finished products increased by 3.4% to RMB641,653,000 (2006: RMB620,522,000). With the increase in investment by the state in medical system in small-to-medium sized cities and rural areas, the Group's strategy is to further develop the distribution network in these areas which shows a continuous growth in demand in good quality pharmaceutical products.

Following the acquisition of Shijiazhuang No. 4 Pharma and the contribution from its intravenous infusion solution products, reliance of the Group's sales on antibiotics products was greatly decreased. With the consolidation of sales figures of intravenous infusion solution and other products from Shijiazhuang No.4 Pharma (from July to December 2007), sales proportion of antibiotics products to total Group's sales decreased from 72.1% in 2006 to 58% in 2007 and sales proportion of Lijunsha accounted for only 37.7% of the total Group's sales in 2007, comparing to 48% in 2006.

INTRAVENOUS INFUSION SOLUTION

The Group's intravenous infusion solution products were mainly manufactured and sold by Shijiazhuang No. 4 Pharma and there were 3 forms of packing in intravenous infusion products, namely Glasses Bottle, PP Plastic Bottle and Non-PVC Soft Bag. As the acquisition of Shijiazhuang No. 4 Pharma was completed at the end of June 2007, the Group consolidated its financial results from July to December 2007 into the consolidated financial statements. Total revenue of Shijiazhuang No. 4 Pharma from July to December 2007 was RMB231,995,000, in which sales of intravenous infusion solution products accounted for RMB211,087,000.

Revenue of Shijiazhuang No. 4 Pharma for the twelve months ended 31 December 2007 was RMB421,593,000 (2006: RMB320,422,000), representing a growth of 31.1% on a year-to-year basis.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep expanding its production capacity in the PP Plastic Bottle and Non-PVC Soft Bag production lines. It is believed that the intravenous infusion solution business will be one of the growth drivers of the group in the coming years.

NON-ANTIBIOTICS PRODUCTS

Thanks to the expanded sales network in small-to-medium sized cities and rural areas and the contribution of similar products sales from Shijiazhuang No. 4 Pharma, sales of the Group's non-antibiotics products increased by 26.0% to RMB201,384,000 (2006: RMB159,889,000).

OTHERS

Due to decrease in sales of bulk pharmaceutical, sales of others amounted to RMB51,722,000 in 2007 (2006: RMB80,230,000) representing an decrease of 35.5%.

COST OF GOODS SOLD

With the merger of the Shijiazhuang No. 4 Pharma during the year, cost of goods sold increased by 30.9% from RMB415,806,000 for the year ended 31 December 2006 to RMB544,402,000 for the year ended 31 December 2007. The cost of direct materials, direct labour and other costs represented approximately 75.6%, 5.2% and 19.2% of the total cost of goods sold respectively for the year ended 31 December 2007 while their comparative percentage for 2006 were 70.3%, 8.8% and 20.9% respectively.

GROSS PROFIT MARGIN

Gross profit of the Group in 2007 amounted to RMB561,444,000 (2006: RMB444,835,000), representing a gross profit margin of 50.8%, which was decreased by 0.9 percentage point comparing to that of last year (51.7%). The decrease in gross profit margin was mainly attributable to increase in cost of raw materials during the year and change of product profolio of the Group.

SELLING AND MARKETING EXPENSES

For the year ended 31 December 2007, selling and marketing expenses amounted to approximately RMB282,184,000 (2006: RMB223,726,000), which mainly consisted of advertising expenses of approximately RMB56,513,000 (2006: RMB52,999,000), sales commission of approximately RMB126,681,000 (2006: RMB105,865,000), salaries expenses of sales and marketing staff of approximately RMB38,705,000 (2006: RMB16,783,000) and office and rental expense of approximately RMB9,395,000 (2006: RMB11,208,000).

The increase of 26.1% in selling and marketing expenses in 2007 as compared with that of 2006 was mainly attributable to the consolidation of selling and marketing expenses of the Shijiazhuang No. 4 Pharma after the acquisition.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to approximately RMB146,334,000 (2006: RMB123,992,000) for the year ended 31 December 2007 which mainly comprised salaries for the administrative staff of approximately RMB57,964,000 (2006: RMB40,591,000), depreciation and amortisation of approximately RMB20,204,000 (2006: RMB10,160,000), office and rental expenses of approximately RMB16,465,000 (2006: RMB9,853,000) and sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB13,000,000 (2006: RMB13,000,000).

The increase of 18.0% in general and administrative expenses in 2007 as compared with that of 2006 was mainly attributable to the consolidation of general and administrative expenses of the Shijiazhuang No. 4 Pharma after the acquisition.

OPERATING PROFIT

With the contribution of Shijiazhuang No. 4 Pharma, the Group's operating profit in 2007 increased by 60.9%, amounted to RMB156,562,000 (2006: RMB97,293,000) with its operating profit margin (defined as operating profit divided by total sales) increased from 11.3% to 14.2%.

FINANCE COSTS

The finance cost for the year has increased to RMB32,265,000 in 2007 (2006: RMB10,232,000). During the year, interest expense on bank borrowings amounted to RMB18,629,000 (2006: RMB10,232,000) , interest expense on discount of notes receivables amounted to RMB5,652,000 (2006: nil) and interest expenses for convertible bond amounted to RMB7,984,000 (2006: nil).

INCOME TAX EXPENSE

Both Xi'an Lijun and Shijiazhuang No. 4 Pharma are entitled to a 50% reduction in the enterprise income tax for the years from 2007 to 2009. For the year ended 31 December 2007, the overall income tax expense amounted RMB12,075,000 (2006: Nil).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS FOR THE YEAR

Profit attributable to equity holders for the year increased by 37.2% to RMB116,007,000 (2006: RMB84,575,000) while net profit margin (profit attributable to equity holders for the year divided by total sales) increased to 10.5% from 9.8% in 2006.

LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cashflow is insufficient to meet the capital requirements.

As at 31 December 2007, the cash and cash equivalents aggregated to RMB92,686,000 (2006: RMB167,387,000), comprising RMB12,827,000 (2006: RMB46,469,000) of cash and cash equivalents denominated in Hong Kong dollars, RMB78,646,000 (2006: RMB116,068,000) in RMB and RMB1,213,000 (2006: RMB4,850,000) in other currencies.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at 31 December 2007, the Group has restricted deposits amounting to RMB40,242,000 (2006: RMB16,248,000) as guarantee of the bank borrowings, letter of credits and bank acceptances.

The carrying amounts of the borrowings (including convertible bonds) amounting to RMB490,658,000 (2006: RMB209,376,000) as at 31 December 2007, comprising RMB124,538,000 (2006: RMB80,376,000) of borrowings denominated in Hong Kong dollars and RMB366,120,000 (2006: RMB129,000,000) in RMB. The increase was mainly due to issue of convertible bond during the year and the consolidation of bank borrowings from Shijiazhuang No. 4 Pharma into the Group's consolidated financial statements after the acquisition.

Gearing ratio (defined as total liabilities divided by total assets) decreased from 45.1% as at 31 December 2006 to 42.3% as at 31 December 2007.

Current ratio (defined as current assets divided by current liabilities) decreased from 1.43 as at 31 December 2006 to 1.25 as at 31 December 2007.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and HK dollar. The Group is of the opinion that its exposure to foreign exchange rate risk is limited.

PLEDGE OF ASSETS

As at 31 December 2007, the net book amount of the Group's land use right of RMB54,242,000 (2006: RMB4,000,000), the net book amount of the Group's buildings and machineries of RMB62,764,000 and RMB128,457,000 (2006: nil) and restricted deposits of RMB40,242,000 (2006: RMB16,248,000) were pledged as collateral for the Group's bank borrowings, letter of credits and bank acceptances.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any significant contingent liabilities.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Wu Qin（吳秦）, aged 55, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Wu has been the chairman of Rejoy Group Limited Liability Company ("Rejoy Group") since October 1998. He has also been the chairman and a director of Xi'an Lijun since November 1999. He is also a director of Prime United Industries Limited ("Prime United"), a controlling shareholder of the Company and a director of Success Manage International Limited ("Success Manage"), which held 1.28% interest in the Company. Mr. Wu was the general manager of Xi'an Lijun from November 1999 to April 2002. Mr. Wu has over 30 years of experience in the pharmaceutical industry. Mr. Wu graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002. He has been awarded with the Model of National Labor and National May First Labor Award and has been an executive director of Pharmaceutical Administration Association/China Pharmaceutical Association. He also enjoys special subsidy for the year 2002 granted by the State Council of the PRC. He is currently a vice president of Shaanxi Industrial and Economic Federation and Deputy Chairman of the Shaanxi Association of Commerce of the China International Association of Commerce. He is also a senior economist, the Deputy Chairman of Law and Social Order Committee of the Standing Committee of Shaanxi Province People's Congress and member of Strategies & Advisory Committee of Shaanxi Province.

Mr. Qu Jiguang（曲繼廣）, aged 52, is an executive Director, the vice-chairman and the chief executive officer of the Company. Mr. Qu is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijazhuang No.1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Phrmaceutical Company Limited, which held 27.23% interest in the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on the Stock Exchange, from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has nearly 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress（河北省人大代表）, Executive Committee Member of All-China Federation of Industry and Commerce（全國工商聯執行委員會委員）,Vice-Chairman of Hebei Provincial Federation of Industry and Commerce（河北省工商聯副會長）, Vice-Chairman of Hebei Provincial Association of Enterprise Management（河北省企業管理協會副會長), Vice-Chairman of Hebei Pharmaceutical Association（河北省醫藥協會副會長）.

Mr. Wu Zhihong（烏志鴻）, aged 59, the vice-chairman of the Company and is responsible for investment of the Group. Mr. Wu has been the deputy chairman of Rejoy Group since October 1999 and was the chief executive officer of Rejoy Group from October 1999 to April 2005. He has also been the deputy chairman and a director of Xi'an Lijun since November 1999. Mr. Wu joined the Group since its establishment in November 1999 and has over 30 years of experience in the pharmaceutical industry. He is a director of Prime United and Success Manage. Mr. Wu graduated from Shenyang College of Pharmaceutical with pharmaceutical management profession in 1985. He is also a senior economist and a registered pharmacist accredited by the SFDA in February 2004.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Huang Chao（黃朝）, aged 52, an executive Director and is responsible for finance, production and sales of Xi'an Lijun. Mr. Huang has been a director of Xi'an Lijun since November 1999 and is currently the general manager of Xi'an Lijun. He had been the deputy chairman of Xi'an Lijun until December 2004 and was the deputy chairman of Rejoy Group from August 1999 to September 2005. Mr. Huang joined the Group since its establishment in November 1999 and has over 30 years of experience in pharmaceutical production. He is a director of Prime United and Success Manage. Mr. Huang graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002, he is also a senior economist.

Mr. Xie Yunfeng（謝雲峰）, aged 53, an executive Director and is responsible for supplies and construction of workshops of Xi'an Lijun. Mr. Xie has been a director and the deputy general manager of Xi'an Lijun since November 1999. He was a director of Rejoy Group from August 1999 to May 2004. Mr. Xie joined the Group since its establishment in November 1999 and has over 27 years of experience in pharmaceutical production. He is also a director of Prime United. Mr. Xie graduated from Party School of the CPC Central Committee majoring in law in 2001.

Ms. Sun Xinglai（孫幸來）, aged 51, an executive Director and is responsible for public relation of the Group. Ms. Sun has been a director of Xi'an Lijun since May 2004. She was the deputy general manager of Xi'an Lijun during November 1999 to May 2004. Ms. Sun joined the Group since its establishment in 1999. Ms. Sun was a director of Rejoy Group from May 2004 to September 2005 and the chief executive officer of Xi'an Rejoy Technology Investment Co. Ltd. ("Rejoy Technology") from May 2004 to April 2005, and the chairmans of labour unions of Rejoy Group and Xi'an Lijun. Ms. Sun graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002.

Mr. Wang Xian Jun（王憲軍）, aged 44, is an executive director of Xi'an Lijun. Mr. Wang has over 20 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, until December 2002. Mr. Wang was also an independent non-executive director of Greater China Holding Limited from July 2002 to August 2005, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

Mr. Duan Wei（段偉）, aged 49, is an executive Director and is responsible for sales and human resources functions of Shijiazhuang No.4 Pharmaceutical Co., Ltd.. He joined No. 1 Pharma as a supervisor in March 1984 and was later promoted as the supervisor of Shijiazhuang Pharmaceutical Group. Mr. Duan has been an executive director and the vice general manager of Shijiazhuang No. 4 Pharma since March 1999 and he has also been an executive director of New Orient, CPCL and CMP. Mr. Duan graduated from Hebei Central Radio and TV University（河北廣播電視大學）and has ample experiences in sales management.

Mr. Wang Zhizhong（王志忠）, aged 49, is an executive Director and is responsible for production functions of Shijiazhuang No.4 Pharmaceutical Co., Ltd.. He joined Shijiazhuang No. 4 Pharma in September 1984 and later became an executive director and an assistant general manager. He has also been an executive director of New Orient, CPCL and CMP. Mr. Wang graduated with a bachelor degree from 瀋陽藥科大學 (Shenyang Pharmaceutical University) majoring in pharmacy research, production and human resources management.

Ms. Zhang Guifu（張桂馥）, aged 47, is an executive Director and is responsible for the finance functions of Shijiazhang No.4 Pharmaceutical Co., Ltd.. Ms. Zhang joined Hebei Yuanzheng Pharmaceutical Company Limited（河北遠征藥業有限公司）as the finance manager in 1991. She has been the finance manager of Shijiazhuang No. 4 Pharma since August 2001 and an executive director of Shijiazhuang No. 4 Pharma since December 2001. She has also been an executive director of New Orient, CPCL and CMP. Ms. Zhang graduated from Hebei Economic Management College（河北經濟管理幹部學院）and has over 27 years of experience in financial control.

DIRECTORS *(Continued)*

Non-executive director

Mr. Liu Zhiyong (劉志勇), aged 37, is a non-executive Director. He joined China National Technical Import and Export Corporation as a finance personnel and became the assistant managing director and an executive director of CNTIC Group International Finance Limited in May 1998. Mr. Liu took up the post of the president of Genertec Hong Kong International Capital Limited in July 2003. Mr. Liu is a director of Victory Rainbow Investment Limited, a substantial shareholder of the Company. Mr. Liu graduated from Renmin University of China with a bachelor's degree in Accounting in 1992 and he is a member of CICPA.

Independent non-executive directors

Mr. Wang Yibing (王亦兵), aged 45, independent non-executive Director. He graduated from Shenyang Pharmaceutical University, majored in pharmacy (瀋陽藥科大學藥學). He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce (河北省醫藥行業協會). Mr Wang joined Heibei Provincial Pharmaceutical Research Centre (河北省藥物研究所) in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine (河北省醫藥管理局綜合經濟處) as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration (河北省食品藥品監督管理局藥品註冊處，藥品安全監管處). Mr. Wang possesses about 24 yearsí experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun (梁創順), aged 42, is an independent non-executive Director. He is also an independent non-executive director of China National Materials Company Limited, a company listed on the Stock Exchange. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

Mr. Chow Kwok Wai (周國偉), aged 41, is an independent non-executive Director. He is also an executive director, a deputy general manager and the qualified accountant of Silver Grant International Industries Limited (Stock Code : 171), a company listed on the Stock Exchange. Mr. Chow has worked in Price Waterhouse, which is now known as PricewaterhouseCoopers and has accumulated valuable audit experience there. Mr. Chow received his Bachelor's degree in Social Sciences from the University of Hong Kong in 1990. He is a Fellow Member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. Mr. Chow has over 16 years' experience in accounting, financial management and corporate finance.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Lam Yiu Por (林曉波), aged 31, is the qualified accountant, company secretary and chief financial officer of the Company. Mr. Lam graduated with a Bachelor's degree in Accountancy from Hong Kong Polytechnic University in 1997. Mr. Lam has more than nine years of experience in the field of finance and accounting. Prior to joining the Company as its qualified accountant, he was the qualified accountant of a company listed on the Stock Exchange. He is a member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

The Board present their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 9 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 38.

DIVIDEND

An interim dividend of HK$0.01 per share was declared on 10 September 2007 and paid on 2 November 2007.

The Directors recommend the payment of a final dividend of HK$0.006 per share. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 30 May 2008 and payable on 26 June 2008 if it is approved.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 21 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 7 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 20 to the financial statements.

SHARE SUBDIVISION OF SHARE CAPITAL

Pursuant to the resolutions passed at the extraordinary general meeting held on 28 August 2007, every one existing issued and unissued shares of HK$0.10 each in the capital of the Company was subdivided into five shares of HK$0.02 each with effect from 29 August 2007 and the subdivided shares should rank pari passu in all respects with each other and had the same rights and privileges and were subject to the restrictions contained in the Articles of Association of the Company.

DISTRIBUTABLE RESERVES

Reserves of the Company as at 31 December 2007 available for distribution amounted to RMB36,339,000 (2006: RMB21,528,000). The Company's share premium account in the amount of RMB644,316,000 (2006: RMB121,239,000) is also available for distribution to shareholders, subject to the condition that no distribution or dividend may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the year.

Save as the allotment and issuance of 110,000,000 shares of the Company with par value of HK$0.10 (which became 550,000,000 shares of the Company with par value of HK$0.02 after the share-subdivision) in relation to acquisition of New Orient Investments Ltd. and allotment and issuance in total 17,152,363 shares of the Company due to conversion of convertible bond issued on 30 May 2007, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2007.

SUBSTANTIAL INVESTMENT AND ACQUISITION

On 29 June 2007, the Group completed the acquisition of 100% of New Orient Investments Limited. Details of the acquisition had been set out in the circular to the shareholders dated 11 June 2007 and under Section "Connected Transaction".

ZERO COUPON CONVERTIBLE BONDS DUE 2010 ("BONDS")

On 16 May 2007, the Company entered into a subscription agreement with ABN ARMO Bank N.V. ("ABN"), pursuant to which ABN agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Bonds with an aggregate principal amount of RMB160 million. Based on an initial conversion price of HK$4.15 ("Conversion Price") and assuming full conversion of the Bonds at the initial conversion price with a fixed exchange rate of HK$1 = RMB0.98339, the Bonds will be convertible into 39,205,419 shares (subject to adjustment) of the Company with par value of HK$0.10 each ("Shares") at that time. The Shares to be issued upon conversion of the Bonds will rank pari passu in all respects with the Shares then in issue on the relevant conversion date.

The net proceeds from the issue of Bonds amounted to approximately HK$160,000,000, of which approximately HK$121,000,000 were used for partial payment of the consideration of the acquisition of New Orient and the balance were used for general working capital of the Group.

On 28 August 2007, shareholders of the Company had approved that each share of the Company with par value of HK$0.1 be subdivided into 5 shares with par value of HK$0.02 with effect from 29 August 2007, Conversion Price of the Bonds was adjusted to HK$0.83 following the share subdivision.

Shareholders may refer to the announcement of the Company dated 17 May 2007, 18 May 2007 and 28 August 2007 for the details of the Bonds. Completion of the subscription agreement took place on 30 May 2007. As at 31 December 2007, 17,152,363 shares of par value of HK$0.02 were issued in relation to conversion of Bonds. As at 31 December 2007, the total principal amount of Bonds outstanding was RMB146,000,000, convertible into 178,874,723 shares, representing approximately 8.86% of the issued share capital of the Company and approximately 8.14% of the enlarged issued share capital of the Company.

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the Shares. The offer for grant of options ("Offer") must be taken up within 28 days from the date of Offer, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option will be determined at the higher of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer; and (iii) the nominal value of the Shares. The share options are exercisable at any time during a period of not more than 10 years from the date of Offer, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of Shares in issue as at the date dealings in the Shares first commence on the Stock Exchange unless further shareholders' approval has been obtained pursuant to the conditions set out in the Scheme. The total number of Shares issued and to be issued upon exercise of all options granted under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

No option has been granted by the Company under the Scheme since its adoption.

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Wu Qin	
Mr. Qu Jiguang	(redesignated on 26 July 2007)
Mr. Wu Zhihong	
Mr. Huang Chao	
Mr. Xie Yunfeng	
Ms. Sun Xinglai	
Mr. Wang Xianjun	
Mr. Duan Wei	(appointed on 26 July 2007)
Mr. Wang zhizhong	(appointed on 26 July 2007)
Ms. Zhang Guifu	(appointed on 26 July 2007)

Non-executive Directors

Mr. Liu Zhiyong

DIRECTORS *(Continued)*

Independent Non-executive Directors

Mr. Wang Yibing (appointed on 26 July 2007)
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 87 of the Company's articles of association, at every annual general meeting one-third of the directors for the time being (or if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and every retiring director shall be eligible for re-election. Accordingly, Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Leung Chong Shun and Mr. Chow Kwok Wai will retire from office by rotation in the forthcoming annual general meeting and, Mr. Wu Qin, Mr. Huang Chao, Mr. Leung Chong Shun and Mr. Chow Kwok Wai, being eligible, offer themselves for re-election.

At the forthcoming annual general meeting, an ordinary resolution will be proposed to re-elect Mr. Wu Qin, and Mr. Huang Chao as executive directors and Mr. Leung Chong Shun and Mr. Chow Kwok Wai as independent non-executive director.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions", no contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the Scheme disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

EMPLOYEES AND REMUNERATION POLICY

Emoluments of the directors are determined by the Board with reference to the prevailing market practice, the Company's remuneration policy, duties and responsibilities of the Directors within the Group and their contribution to the Group.

As at 31 December 2007, the Group had approximately 3,700 employees, most of whom were members of the Group's production team based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs and the emolument policy of employees is based on industry practice.

The remuneration policy of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for year ended 31 December 2007 was RMB145,173,000 (2006: RMB96,806,000).

RETIREMENT BENEFIT PLANS

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 8%, respectively, of the employees' basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group also has an early retirement plan. Expenses incurred by the Group in connection with the retirement benefit plans were approximately RMB18,498,000 for the year ended 31 December 2007 (2006: RMB12,036,000).

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 by each of the employee and the Group) on a monthly basis to the fund.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2007, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules once the Shares are listed, were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Interest in a controlled corporation *(Note 1)*	25,780,000	1.28%
Mr. Qu Jiguang	Interest in a controlled corporation *(Note 2)*	550,000,000	27.23%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES *(Continued)*

Long positions in the Shares *(Continued)*

Notes:

1. These shares were registered in the name of and beneficially owned by Success Manage International Limited ("Success Manage"), the issued share capital of which is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, Mr. Wu Qin is deemed to be interested in all the Shares held by Success Manage.

2. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu is deemed to be interested in the Shares held by CPCL.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 31 December 2007, the Company had been notified of the following interests and short positions, being 5% or more in the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Long positions in the Shares

Name of Shareholder	Capacity	Number of Shares	% of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	619,920,000	30.69%
CPCL	Beneficial owner	550,000,000	27.23%
Mr. Qu Jiguang *(Note 2)*	Interest of controlled corporation	550,000,000	27.23%
Victory Rainbow Investment Limited	Beneficial owner	291,500,000	14.43%
Grand Ocean Shipping Company Ltd. *(Note 3)*	Interest of controlled corporation	291,500,000	14.43%
Ms. Chen Lin Dong *(Note 3)*	Interest of controlled corporation	291,500,000	14.43%
Mr. Xu Ming *(Note 3)*	Interest of controlled corporation	291,500,000	14.43%
ABN AMRO Bank N.V.	Beneficial owner	120,283,550	5.96%
ABN AMRO Holding N.V. *(Note 4)*	Interest of controlled corporation	120,283,550	5.96%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES *(Continued)*

Long positions in the Shares *(Continued)*

Notes:

(1) Prime United Industries Limited is held as to about 2.43% by Mr. Wu Qin, an executive Director, as to about 2.43% by Mr. Wu Zhihong, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 4% by Ms. Han Yamei, a member of the management of Xi'an Lijun and as to about 84.73% by Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng and Ms. Han Yumei who jointly hold such shares on trust for 4,597 individuals who are present and former employees or their respective estates of Xi'an Lijin and Rejoy Group. Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao and Mr. Xie Yunfeng, the executive Directors, are also directors of the Prime United Industries Limited. Xi'an Lijun is a company established in the PRC with limited liability and wholly-owned by the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by Shaanxi Pharmaceutical Company（陝西省醫藥總公司）, a state-owned enterprise under the direct supervision of the Shaanxi Provincial Government.

(2) CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

(3) Victory Rainbow Investment Limited is wholly-owned by Grand Ocean Shipping Company Ltd., a company incorporated in the Republic of Liberia, which in turn is owned as to 50% by Ms. Chen Lin-Dong and 50% by Mr. Xu Ming. By virtue of Part XV of the SFO, each of Grand Ocean Shipping Company Ltd., Ms. Chen Lin-Dong and Mr. Xu Ming is deemed to be interested in the Shares held by Victory Rainbow Investment Limited.

(4) ABN AMRO Bank N.V. is wholly-owned by ABN AMRO Holding N.V. By virtue of Part XV of the SFO, ABN AMRO Holding N.V. is deemed to be interested in the Shares held by ABN AMRO Bank N.V.

MANAGEMENT CONTRACTS

Save as disclosed under the heading "Connected transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the Group purchased less than 30% of its total purchases from its 5 largest suppliers and sold less than 30% of its turnover to its 5 largest customers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 37 to the financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS *(Continued)*

Connected transactions

(1) Acquisition of the Entire Issued Share Capital and the Shareholder's Loan of New Orient Investments Limited ("Acquisition of New Orient")

On 25 March 2007, the Company entered into an acquisition agreement with CMP Group Limited ("CMP") as vendor and China Pharmaceutical Company Limited ("CPCL") as guarantor of the vendor, pursuant to which the Company had agreed to purchase and CMP had agreed to sell the entire interests in, and a shareholder loan of, its wholly owned subsidiary New Orient Investments Limited ("New Orient").

The Acquisition of New Orient constitutes a major transaction of the Company under Rules 14.06(3) of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As Mr. Qu Jiguang is an independent non-executive Director and also the ultimate controlling shareholder of CMP, the entering into of the acquisition agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The acquisition agreement is therefore subject to approval of the independent shareholders at an extraordinary general meeting.

The Acquisition of New Orient was approved by independent shareholders at an extraordinary general meeting held on 26 June 2007 and was completed on 29 June 2007. Total consideration of the acquisition was satisfied by the Company in the following manner:

(i) The allotment and issued of 110,000,000 shares of the Company with par value of HK$0.10 ("Consideration Shares") to CPCL, which held 55.14% interest of CMP.

(ii) Cashier orders amounted HK$101,852,000 were paid to CPCL.

(iii) Cashier orders amounted HK$89,148,000 were paid to Bowley Limited, which held 17.48% interest of CMP.

CPCL has guaranteed to the Company that the audited consolidated net profit of the New Orient together with its subsidiaries ("New Orient Group") for the financial year ending 31 December 2007 will not be less than RMB70,000,000 or CPCL will compensate the shortfall on a dollar-for-dollar basis. CPCL has placed 10,000,000 shares among the 110,000,000 Consideration Shares with the Company as security for the profit guarantee in accordance with the acquisition agreement.

CPCL had fulfilled its obligations under the abovementioned profit guarantee as the audited consolidated net profit of the New Orient Group for the financial year ended 31 December 2007 was RMB86,059,000.

Shareholders may refer to the announcement of the Company dated 30 March 2007 and circular dated 10 June 2007 for the details of the acquisition.

As at the date of completion of the acquisition, total consideration of the acquisition recognised in the Group's financial statement was approximately RMB707,375,000.

CONNECTED TRANSACTIONS *(Continued)*

Connected transactions *(Continued)*

(2) Acquisition of Interest in Shaanxi Lijun Modern Chinese Medicine Co., Ltd. ("陝西利君現代中藥有限公司") (the "Lijun Modern Chinese Medicine")

On 16 August 2007, in order to further develop the business in Chinese medicine, the Company purchased 5.175% of the fully paid up registered capital of Lijun Modern Chinese Medicine from Mr. Gao Zhihong (a director of Lijun Modern Chinese Medicine, who owns 8.175% of the fully paid up registered capital of Lijun Modern Chinese Medicine) for a sum of RMB2,328,000. Since then the shareholding of Xi'an Lijun in Lijun Modern Chinese increased to 80.675%.

The transaction constitutes a connected transaction for the Company under the Listing Rules. As each of the applicable percentage ratios as specified in Rules 14A.32 of the Listing Rules is less than 2.5 per cent, the transaction is therefore subject to reporting and announcement requirements set out in Rule 14A.32 of the Listing Rules and is exempt from the independent shareholder's approval requirements. Shareholder may refer to announcement dated 20 August 2007 for more details.

Continuing connected transactions

(1) Distribution of the Group's products by Rejoy Technology Group ("Xi'an Rejoy Technology Investment Co. Ltd. and its subsidiaries, including but not limited to Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. and Xi'an Rejoy Packaging Materials Co., Ltd.")

Pursuant to the Master Sale Agreement dated 20 December 2007, the Group agreed to sell and the Rejoy Technology Group agreed to purchase and distribute products of the Group. The Rejoy Technology Group purchases products from the Group and distributes such products to other distributors and end customers. The directors confirmed that the selling prices of the Group's products sold to the Rejoy Technology Group were determined in accordance with the market prices and terms and that the Group charged the Rejoy Technology Group for the products at prices no less favourable than those charged to independent third parties and on terms no less favorable than those the Group can obtain from independent third parties.

Xi'an Rejoy Technology Investment Co. Ltd., the issued share capital of which is held as to 100% by the beneficial shareholders of Prime United Industries Limited, the Controlling Shareholder and is accordingly a connected person of the Company

For the year ending 31 December 2007, the total sales of Group products to the Rejoy Technology Group was RMB18,224,000 (2006: RMB19,515,000), which did not exceed the estimated annual cap of RMB21,5000,000 (2006: RMB24,800,000) prescribed for the year ended 31 December 2007 as disclosed in the announcement dated 20 December 2007.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions *(Continued)*

(2) Purchasing of Raw Materials from Rejoy Technology Group

Pursuant to the Master Purchase Agreement, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group. The prices and terms of the Master Purchase Agreement are as per market and shall be no less favourable than market prices and terms.

The directors confirmed that the Group pays Rejoy Technology Group for the raw materials and packaging materials at prices no less favourable than those paid to independent third parties and on terms no less favourable than those the Group can obtain from other comparable independent third parties. For the year ending 31 December 2007, the total purchase of raw materials and packaging materials from the Rejoy Technology Group was RMB1,290,000 (2006: nil), which did not exceed the estimated annual cap of RMB5,000,000 prescribed for the year ended 31 December 2007 as disclosed in the announcement dated 20 December 2007.

The aforesaid continuing connected transactions have been reviewed by independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the cap disclosed in previous announcement.

In accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed procedures to the Board of Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at 31 December 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Listing Rules. All Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2007.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting of the Company will be held at 11:00 a.m. on 30 May 2008 at Boardroom 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and dispatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 May 2008 (Tuesday) to 30 May 2008 (Friday) (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 26 May 2008 (Monday).

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 25 April 2008

CORPORATE GOVERNANCE REPORT

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

The following summarises the Company's corporate governance practices.

Key Corporate Governance Principles and the Company's Practices

A.1 Board of Directors

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

Four regular board meetings were held for the year ended 31 December 2007 and the attendance was as follows:

		Meetings attended/held	Attendance
Wu Qin		4/4	100%
Qu Jiguang		4/4	100%
Wu Zhihong		4/4	100%
Huang Chao		4/4	100%
Xie Yunfeng		4/4	100%
Sun Xinglai		4/4	100%
Wang Xian Jun		4/4	100%
Duan Wei	(appointed on 26 July 2007)	2/4	50%
Wang Zhizhong	(appointed on 26 July 2007)	2/4	50%
Zhang Guifu	(appointed on 26 July 2007)	2/4	50%
Liu Zhiyong		3/4	75%
Wang Yibing	(appointed on 26 July 2007)	2/4	50%
Leung Chong Shun		3/4	75%
Chow Kwok Wai		3/4	75%

All directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting.

Notice of at least 14 days were given of a regular board meeting. For all other board meetings, reasonable notice will be given.

All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of minutes of Board meetings were sent to all directors for their comment and record respectively within 3 business days after the board meeting was held.

The Company has established the policy on obtaining independent professional advice by directors to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold.

All directors have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. Minutes of board meetings and meetings of board committee are to be kept by a duly appointed secretary of the meeting and such minutes are open for inspection at any reasonable time and on reasonable notice by any director.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

A.2 Chairman and chief executive officer

The Board appointed Mr. Wu Qin as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

The Board appointed Mr. Qu Jiguang as the Chief Executive Officer, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Board also comprises Independent Non-Executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

The chairman is responsible for ensuring that directors receive adequate information, which is complete and reliable, in a timely manner.

A.3 Board composition

The Board comprises ten executive Directors, being Mr. Wu Qin, Mr. Qu Jiguang, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai, Mr. Wang Xianjun, Mr. Duan Wei, Mr. Wang Zhizhong and Ms. Zhang Guifu, one non-executive Director, being Mr. Liu Zhiyong, and three independent non-executive Directors, being Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the directors are shown on page 9 to 11 under the section of Directors and Senior Management.

There are sufficient numbers of independent non-executive directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

All Directors are expressly identified by categories of executive directors, non-executive director and independent non-executive directors, in all corporate communications that disclose the names of Directors of the Company.

There are no financial, business, family and other material or relevant relationships among members of the board.

A.4 Appointments, re-election and removal

At each annual general meeting, one third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

A.4 Appointments, re-election and removal *(Continued)*

Pursuant to Article 87 of the Articles of Association, Mr. Wu Qin (an executive Director), Mr. Wu Zhihong (an executive Director), Mr. Huang Chao (an executive Director), Mr. Leung Chong Shun (an independent non-executive director) and Mr. Chow Kwok Wai (an independent non-executive director) will retire from office by rotation in the forthcoming annual general meeting. Mr. Wu Qin, Mr. Huang Chao, Mr. Leung Chong Shun and Mr. Chow Kwok Wai, being eligible, offer themselves for re-election at the AGM.

Every Director including non-executive director, including those appointed for a specific term, were subject to retirement by rotation at least once every three years.

The Company had not established a Nomination Committee and retained the functions to the Board. The Directors from time to time identify individual suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether he can add value to the management through his contributions in the relevant strategic business areas and if the appointment results in a strong and diverse Board. In 2007, the Board had nominated and appointed Mr. Duan Wei, Mr. Wang Zhizhong and Ms. Zhang Guifu as executive Directors and Mr. Wang Yibing as an independent non-executive Director to the Board.

A.5 Responsibilities of directors

Every newly appointed Director of the Company received an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and ongoing obligations to be observed by a director. In addition, the package includes materials on the operations and business of the Company. The management of the Company conducted briefing on their responsibilities and obligations under the laws and applicable regulations such as Listing Rules and Company Ordinance as was necessary.

The functions of independent non-executive Directors include but not limited to the following:

(a) participating in board meetings of the Company to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the audit and remuneration committees; and

(d) scrutinising the Company's performance in achieving agreed corporate goals and objectives, monitoring the reporting of performance.

Every director ensures that he can give sufficient time and attention to the affairs of the Company.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

A.5 Responsibilities of directors *(Continued)*

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Listing Rules. The Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2007.

A.6 Supply of and access to information

In respect of regular board and committee meetings, agendas and accompanying board papers were sent in full to all directors at least 3 days before the intended date of meetings.

The management and the Company Secretary assist the Chairman in establishing the meeting agenda and board papers, providing adequate information in a timely manner to enable the board and committees in making decision to the matter being discussed in the meetings. Each Director may request inclusion of items in the agenda. The Board and each Director may separately and independently access to the issuer's senior management and shall receive prompt response.

Minutes of the Board/committees meetings are kept by the Company Secretary and are open for inspection by Directors.

B.1 Remuneration of Directors and senior management

The Board has established a Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them are independent non-executive Directors appointed by the Board.

The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Group.

One meeting had been held for the Remuneration Committee during the year ended 31 December 2007 and the attendance was as follows:

		Meeting attended/held	Attendance
Leung Chong Shun		1/1	100%
Wang Yibing	(appointed on 26 July 2007)	0/1	0%
Chow Kwok Wai		1/1	100%

The functions specified in Code Provision B1.3 (a) to (f) of the CG Code had been included in the Terms of Reference of the Remuneration Committee, which also explains the role and the authority delegated by the Board.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

B.1 Remuneration of directors and senior management *(Continued)*

The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

The remuneration committee will make available on request, its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the remuneration committee include the following specific duties:

(a) to make recommendations to the board on the issuer's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;

(e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) to ensure that no director or any of his associates is involved in deciding his own remuneration. The remuneration committee shall advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under rule 13.68 of the Listing Rules.

The Remuneration Committee will be provided with sufficient resources to discharge its duties.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

B.1 Remuneration of directors and senior management *(Continued)*

The following is a summary of the work of the Remuneration Committee during 2007 regarding the remuneration of Directors:

(i) review the terms of Director's service contract; and

(ii) review the remuneration of Directors;

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK$180,000 for each of the independence non-executive directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai and is HK$60,000 for Mr. Liu Zhiyang, a non-executive Director.

Remuneration packages of executive Directors comprise fixed and variable components:

(1) Fixed component — base salary; and

(2) Variable component — annual performance bonus.

Fringe benefits include the provident fund, medical insurance and other miscellaneous benefits.

All the Directors are entitled to participate in the share option scheme.

Emoluments of the Directors are determined by the Board with reference to the prevailing market practice, his duties and responsibilities within the Group and his contribution to the Group.

Details of the remuneration of Directors for the year ended 31 December 2007 are set out in the page 89 of the Annual Report.

C.1 Accountability and audit

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects.

Management of the Company provides such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2007, the Directors have:

1. selected suitable accounting policies and applied them consistently;
2. approved adoption of all HKFRSs;
3. made judgments and estimates that are prudent and reasonable; and
4. have prepared the accounts on the going concern basis.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

C.1 Accountability and audit *(Continued)*

Acknowledgement from the Directors of their responsibility for preparing the accounts has been received.

A statement by the auditors about their reporting responsibilities is included in the page 33-34 of the 2007 Annual Report under the section Report of the Auditors.

During the year, the Company has announced its annual results in a timely manner after the end of the relevant period, as laid down in the Listing Rules; and during the year, the Company has issued annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

C.2 Internal controls

The directors had conducted a review of the effectiveness of the system of internal control of the Group which covered all material controls, including financial, operational and compliance controls and risk management functions.

C.3 Audit Committee

The Board establishes formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Audit Committee established by the Company have clear terms of reference.

All the members of the Audit Committee are independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun.

The functions specified in Code Provision C3.3 (a) to (n) of the CG Code had been included in the Terms of Reference of the Audit Committee. The Terms of Reference of the Audit Committee also explains the role and the authority delegated by the Board.

Two meetings had been convened by the Audit Committee during the year ended 31 December 2007 and the attendance was as follows:

		Meetings attended/held	Attendance
Chow Kwok Wai		2/2	100%
Wang Yibing	(appointed on 26 July 2007)	1/2	50%
Leung Chong Shun		2/2	100%

Full minutes of audit committee meetings will be kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings will be sent to all members of the committee for their comment and records respectively, within 3 business days after the meeting.

The Audit Committee of the Company does not have a former partner of the Company's existing audit firm.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

C.3 Audit committee *(Continued)*

The terms of reference of the audit committee includes the following duties:

(a) to be primarily responsible for making recommendation to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The audit committee should report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(d) to monitor integrity of financial statements of an issuer and the issuer's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the issuer's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the board, the committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

C.3 Audit committee *(Continued)*

(e) In regard to (d) above:

(i) members of the committee must liaise with the issuer's board of directors, senior management and the person appointed as the issuer's qualified accountant and the committee must meet, at least once a year, with the issuer's auditors; and

(ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the issuer's qualified accountant, compliance officer or auditors;

(f) to review the issuer's financial controls, internal control and risk management systems;

(g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

(h) to consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response;

(i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer, and to review and monitor the effectiveness of the internal audit function;

(j) to review the group's financial and accounting policies and practices;

(k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the board on the matters set out in this code provision; and

(n) to consider other topics, as defined by the board.

The audit committee shall make available on request its terms of reference, explaining its role and the authority delegated to it by the board.

The audit committee has been provided with sufficient resources to discharge its duties.

PricewaterhouseCoopers had been appointed to be the auditor of the Group. During 2007, total fees amounted about HK$3,200,000 paid/payable to PricewaterhouseCoopers were wholly related to audit services.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditor of the Group in 2008.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

D.1 Delegation by the board

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. There should be a clear division of responsibilities amongst committees and each of them should have a specific terms of reference.

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility to the executive management.

D.2 Board committees

The Board has prescribed sufficiently clear terms of reference for the Audit Committee and the Remuneration Committee.

The terms of reference of the Audit Committee and the Remuneration Committee require the committees to report back to the board on their decisions or recommendations.

E.1 Effective communication

In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the chairman of the meeting.

The chairman of the Board will attend the annual general meeting and arrange for the chairman of the Audit and Remuneration Committees or members to be available to answer questions at the annual general meeting.

E.2 Voting by poll

The chairman of a meeting will ensure disclosure in the Company's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in the Listing Rules.

The chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting will demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting will disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

The Company will count all proxy votes and, except where a poll is required, the chairman of a meeting will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded.

The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

(a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

(b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
LIJUN INTERNATIONAL PHARMACEUTICAL (HOLDING) CO., LTD.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 101, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 April 2008

CONSOLIDATED BALANCE SHEET

As at 31 December 2007
(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Land use rights	*6*	**63,704**	6,945
Property, plant and equipment	*7*	**673,824**	359,943
Intangible assets	*8*	**515,077**	6,983
Deferred income tax assets	*10*	**12,691**	8,402
Available-for-sale financial assets	*11*	**4,029**	609
		1,269,325	382,882
Current assets			
Inventories	*12*	**178,290**	85,485
Trade and bills receivable	*15*	**309,760**	215,867
Prepayments, deposits and other receivables	*16*	**50,204**	47,039
Other financial assets at fair value through profit or loss	*17*	**462**	—
Restricted cash	*18*	**40,242**	16,248
Cash and cash equivalents	*19*	**92,686**	167,387
		671,644	532,026
Total assets		**1,940,969**	914,908
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*20*	**41,276**	30,229
Reserves	*21*	**1,077,976**	472,088
		1,119,252	502,317
Minority interest		**749**	—
Total equity		**1,120,001**	502,317

CONSOLIDATED BALANCE SHEET

As at 31 December 2007
(All amounts in RMB unless otherwise stated)

		As at 31 December	
	Note	**2007**	2006
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*22(a)*	**84,760**	28,131
Long-term payables	*23*	**16,526**	12,713
Convertible bonds	*22(b)*	**141,520**	—
Deferred income tax liabilities	*10*	**39,327**	—
		282,133	40,844
Current liabilities			
Trade and bills payable	*24*	**129,158**	52,192
Advance receipts from customers		**21,880**	10,348
Accruals and other payables	*25*	**97,083**	96,649
Income tax payable		**20,943**	14,628
Dividend payable		**702**	2,582
Amount due to minority shareholder of a subsidiary		**—**	11,742
Short-term bank borrowings	*22(a)*	**237,691**	169,188
Current portion of long-term bank borrowings	*22(a)*	**26,687**	12,057
Current portion of long-term payables	*23*	**4,691**	2,361
		538,835	371,747
Total liabilities		**820,968**	412,591
Total equity and liabilities		**1,940,969**	914,908
Net current assets		**132,809**	160,279
Total assets less current liabilities		**1,402,134**	543,161

WU QIN
Director

QU JIGUANG
Director

The notes on pages 41 to 101 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2007

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**3,172**	2,559
Investments in subsidiaries	9	**1,032,482**	323,697
		1,035,654	326,256
Current assets			
Dividends receivable		**40,000**	46,969
Prepayments, deposits and other receivables	16	**45,722**	2,890
Restricted cash	18	**19,557**	16,248
Cash and cash equivalents	19	**13,136**	13,740
		118,415	79,847
Total assets		**1,154,069**	406,103
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	**41,276**	30,229
Reserves	21	**838,321**	292,155
Total equity		**879,597**	322,384
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	22(a)	**69,760**	28,131
Convertible bonds	22(b)	**141,520**	—
Deferred income tax liabilities		**1,756**	—
		213,036	28,131
Current liabilities			
Accruals and other payables	25	**5,956**	761
Short-term bank borrowings	22(a)	**28,091**	40,188
Current portion of long-term borrowings	22(a)	**26,687**	12,057
Dividend payable		**702**	2,582
		61,436	55,588
Total liabilities		**274,472**	83,719
Total equity and liabilities		**1,154,069**	406,103
Net current assets		**56,979**	24,259
Total assets less current liabilities		**1,092,633**	350,515

WU QIN
Director

QU JIGUANG
Director

The notes on pages 41 to 101 are an integral part of this financial statement.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Revenue	26	**1,105,846**	860,641
Cost of sales	27	**(544,402)**	(415,806)
Gross profit		**561,444**	444,835
Other gains — net	26	**23,636**	176
Selling and marketing costs	27	**(282,184)**	(223,726)
General and administrative expenses	27	**(146,334)**	(123,992)
Operating profit		**156,562**	97,293
Finance income	28	**3,814**	5,340
Finance costs	28	**(32,265)**	(10,232)
Profit before income tax		**128,111**	92,401
Income tax expense	29	**(12,075)**	966
Profit for the year		**116,036**	93,367
Attributable to:			
Equity holders of the Company	30	**116,007**	84,575
Minority interest		**29**	8,792
		116,036	93,367
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
— basic	33	**0.067**	0.058
— diluted	33	**0.065**	0.058
Dividends	34	**30,694**	41,363

The notes on pages 41 to 101 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007
(All amounts in RMB unless otherwise stated)

		Attributable to equity holders of the Company				
	Note	**Share capital** *RMB'000*	**Reserves** *RMB'000*	**Total** *RMB'000*	**Minority interest** *RMB'000*	**Total equity** *RMB'000*
Balance at 31 December 2005		30,229	470,496	500,725	93,647	594,372
Profit for the year		—	84,575	84,575	8,792	93,367
Exchange difference	*21*	—	(2,652)	(2,652)	—	(2,652)
Dividends paid/payable to equity holders of the Company		—	(68,472)	(68,472)	—	(68,472)
Dividends paid to minority interest of a subsidiary		—	—	—	(11,742)	(11,742)
Acquisition of minority interest		—	(11,859)	(11,859)	(90,697)	(102,556)
Balance at 31 December 2006		30,229	472,088	502,317	—	502,317
Issue of shares		10,719	509,103	519,822	—	519,822
Equity component of convertible bonds		—	9,073	9,073	—	9,073
Issue of shares as a result of conversion of convertible bonds		328	13,179	13,507	—	13,507
Profit for the year		—	116,007	116,007	29	116,036
Dividends paid/payable to equity holders of the Company		—	(39,146)	(39,146)	—	(39,146)
Acquisition of minority interest		—	(2,328)	(2,328)	—	(2,328)
Acquisition of subsidiary		—	—	—	720	720
Balance at 31 December 2007		41,276	1,077,976	1,119,252	749	1,120,001

The notes on pages 41 to 101 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(All amounts in RMB unless otherwise stated)

	Note	**Year ended 31 December**	
		2007	2006
		RMB'000	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	*35(a)*	**119,941**	35,480
Interest paid		**(23,396)**	(10,232)
Income tax paid		**(12,711)**	—
Net cash generated from operating activities		**83,834**	25,248
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	36	**(163,610)**	—
Acquisition of minority interest in a subsidiary		**(2,328)**	(102,556)
Purchase of property, plant and equipment		**(80,617)**	(51,739)
Proceeds from disposal of property, plant and equipment	*35(b)*	**509**	305
Purchase of intangible assets		**(3,707)**	(7,367)
Purchase of land use rights		**(948)**	—
Purchase of other financial assets at fair value through profit or loss		**(29,894)**	—
Proceeds from sale of other financial assets at fair value through profit or loss		**46,613**	—
Increase in due from related parties		**—**	(3,047)
Interest received		**3,681**	5,340
Net cash used in investing activities		**(230,301)**	(159,064)
Cash flows from financing activities			
Proceeds from convertible bonds		**158,464**	—
New bank loans		**239,349**	305,846
Repayment of bank loans		**(255,186)**	(213,470)
Increase of restricted bank deposits as guarantee for bank borrowings/facilities		**(18,150)**	(16,248)
Proceeds from share issue, net of share issue expenses		**—**	30,606
Dividends paid to equity shareholders		**(41,026)**	(80,653)
Decrease in amount due to minority shareholders of a subsidiary		**(11,742)**	—
Net cash inflows from financing activities		**71,709**	26,081
Net decrease in cash and cash equivalents		**(74,758)**	(107,735)
Effect of foreign exchange rate changes		**57**	—
Cash and cash equivalents at beginning of year	*19*	**167,387**	275,122
Cash and cash equivalents at end of the year	*19*	**92,686**	167,387

The notes on pages 41 to 101 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in the research, development, manufacture and sale of a wide range of finished medicines and bulk pharmaceuticals through a network of independent retailers. The Group has manufacturing plants in the Shaanxi Province and Hebei Province of the People's Republic of China ("PRC"), and sells to customers mainly in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands on 28 September 2004. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 20 December 2005.

These consolidated financial statements are presented in Renminbi (RMB), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 25 April 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Standards, amendment and interpretations effective in 2007

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements — Capital disclosures', introduces new disclosures relating to financial instruments. The main additional disclosures include certain quantitative information of the Group's exposure to credit risk, liquidity risk and market risk, as well as qualitative information of the Group's capital risk management.

HK (IFRIC) — Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Standards, amendment and interpretations effective in 2007 *(Continued)*

HK (IFRIC) — Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

HK (IFRIC) — Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies'; and

HK (IFRIC) — Int 9, 'Re-assessment of embedded derivatives'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009. Management is currently assessing the impact of HKAS 1 (Revised) on the Group's operations.

HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009. Management is currently assessing the impact of HKAS 23 (Amendment) on the Group's operations.

HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. Management is currently assessing the impact of HKFRS 8 on the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

HK (IFRIC) — Int 11, 'HKFRS 2 — Group and treasury share transactions' (effective for annual period beginning on or after 1 March 2007). HK (IFRIC) — Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group will apply HK (IFRIC) — Int 11 from 1 January 2008. Management believes that this interpretation should not have a significant impact on the consolidated financial statements as the Group has already assessed whether options over a parent's shares have been properly recorded in the stand-alone accounts of the parent and group companies using the principles that are consistent with HK (IFRIC) — Int 11.

HK (IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). HK (IFRIC) — Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK (IFRIC) — Int 14 from 1 January 2008. Management is currently assessing the impact of HK (IFRIS) — Int 14 on the Group's operations.

HKAS 32 and HKAS 1 Amendments 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply HKAS 32 and HKAS 1 Amendments from 1 January 2009. Management is currently assessing the impact of HKAS 32 and HKAS 1 Amendments on the Group's operations.

HKAS 27 (Revised) 'Consolidated and separate financial statements' (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010. Management is currently assessing the impact of HKAS 27 (Revised) on the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

HKFRS 3 (Revised) 'Business combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010. Management is currently assessing the impact of HKFRS 3 (Revised) on the Group's operations.

HKFRS 2 Amendment 'Share-based payment vesting conditions and cancellations' (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009. Management is currently assessing the impact of HKFRS 2 Amendment on the Group's operations.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

HK (IFRIC) — Int 12, 'Service concession arrangements' (effective from 1 January 2008). HK (IFRIC) — Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK (IFRIC) — Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

HK (IFRIC) — Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK (IRFIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK (IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

HK (IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). HK (IFRIC) — Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK (IFRIC) — Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2007.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) ***Subsidiaries*** *(Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) ***Transactions with minority interests***

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) ***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Transactions and balances *(Continued)*

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipments are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

—	Buildings	10-40 years
—	Plant and machinery	5-18 years
—	Vehicles	5-10 years
—	Furniture, fittings and equipment	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains — net, in the income statements. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for the intended use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the use terms of 50 years using the straight-line method.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

(b) Patents

Acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives (5-10 years).

(c) Trademarks and customer bases

Acquired trademarks and customer bases are shown at historical cost. Trademarks and customer base have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and customer bases over their estimated useful lives (50 years).

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets *(Continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables (Note 2.11) and 'cash and cash equivalents' in the balance sheet (Note 2.12).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other(losses)/gains — net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets *(Continued)*

(c) Available-for-sale financial assets *(Continued)*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'general and administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against'general and administrative expenses' in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and deferred income tax *(Continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of service rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

Group companies operate various pension schemes.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation; subject to a cap of Hong Kong dollar 1,000 per person per month and any excess contributions are voluntary.

The Group contributes on a monthly basis to defined contribution plans organised by provincial government in the PRC based on a percentage of the relevant employee's monthly salaries. The Group's contributions to defined contribution plans are expensed as incurred. The Group has no legal or constructive obligations to pay further contributions even if the schemes do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods.

The Group also has defined benefit plan. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of services and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by management using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee benefits *(Continued)*

(b) Pension obligations *(Continued)*

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement in the period in which they arise.

Past-service costs are recognised immediately in income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Some group companies provide post-retirement benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement in the period in which they arise.

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.20 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Processing income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income is recognised over the terms of leases on a straight-line basis.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.22 Research and development costs

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in PRC with most of the transactions denominated and settled in RMB. The Group is also exposed to foreign exchange risk arising from HK dollar since certain of the cash, cash equivalent and borrowings are denominated in HK dollar. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The Group considers it has no material foreign exchange risk.

At 31 December 2007, if RMB had strengthened/weakened by 5% against the HK dollar with all other variables held constant, post-tax profit for the year would have been RMB4,206,000 (2006: RMB1,066,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK dollar-denominated cash and cash equivalent, prepayment and other receivables, accrual and other payables and borrowings. Profit is more sensitive to movement in RMB/HK dollar exchange rates in 2007 than 2006 because of the increased amount of HK dollar denominated borrowings.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. During 2007 and 2006, the Group's borrowings at variable rate were denominated in HK dollar and the Renminbi.

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its non-current borrowings. Non-current borrowings at variable rates expose the Group to cash flow interest-rate risk.

At 31 December 2007, if interest rates on RMB-denominated borrowings had been 60 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB1,639,000 (2006: RMB1,023,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's credit policy for the sales of products is mainly delivery either on cash or upon receipt of bank acceptance notes with maturity dates within three months. Most of the customers have to settle their payments within 90 days. For bank and financial institutions, the Group has policies that deposits are put in reputable banks.

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, together with adequate banking facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balance due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2007				
Borrowings	**264,378**	**57,812**	**31,962**	**—**
Convertible bonds	**—**	**—**	**169,725**	**—**
Accounts and bills payable	**129,158**	**—**	**—**	**—**
Accruals and other current payables	**30,798**	**—**	**—**	**—**
Dividend payable	**702**	**—**	**—**	
Long-term payables	**4,789**	**3,659**	**5,644**	**20,690**
At 31 December 2006				
Borrowings	181,245	16,464	12,889	—
Accounts and bills payable	52,192	—	—	—
Accruals and other current payables	16,092	—	—	—
Dividend payable	2,582	—	—	—
Amount due to minority shareholder of a subsidiary	11,742	—	—	—
Long-term payables	3,627	2,805	4,719	7,532

3. **FINANCIAL RISK MANAGEMENT** *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Total borrowings *(Note 22)*		
— Current	**264,378**	181,245
— Non current	**226,280**	28,131
Total	**490,658**	209,376
Less: Cash and cash equivalents *(Note 18,19)*	**(132,928)**	(183,635)
Net debt	**357,730**	25,741
Total equity	**1,119,252**	502,317
Total capital	**1,476,982**	528,058
Gearing ratio	**24%**	5%

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives for its property, plant and equipment and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations by the balance sheet date.

(c) Impairment of trade and bills receivable

The Group's management determines the provision for impairment of trade and bills receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision on each of the balance sheet date.

(d) Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amounts, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business, are determined with reference to the best information available to reflect the amount that is obtainable at each of the balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(e) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on 5-year financial budget approved by management and estimated terminal value at the end of the 5-year period. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(f) Current tax and deferred tax

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

(g) Termination benefits and other post-employment benefits obligation

The valuation of the present value of termination benefits and other post-employment benefits obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

Key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 23.

5. SEGMENT INFORMATION

The Group primarily operates in one business segment — manufacturing and sale of pharmaceutical products. It operates principally in one geographical segment — the PRC. Substantially all of the Group's assets were located in the PRC. Accordingly, no analysis of segment information is presented.

6. LAND USE RIGHTS — GROUP

	RMB'000
At 1 January 2006	
Cost	7,425
Accumulated amortisation	(411)
Net book amount	7,014
Year ended 31 December 2006	
Opening net book amount	7,014
Amortisation charge for the year	(69)
Closing net book amount	6,945
At 31 December 2006	
Cost	7,425
Accumulated amortisation	(480)
Net book amount	6,945
Year ended 31 December 2007	
Opening net book amount	6,945
Additions resulting from acquisition of subsidiary	60,565
Additions	948
Disposal	(3,682)
Amortisation charge for the year	(1,072)
Closing net book amount	63,704
At 31 December 2007	
Cost	65,256
Accumulated amortisation	(1,552)
Net book amount	63,704

All of the Group's land use rights are located in Shaanxi Province and Hebei Province, the PRC and are held on leases of 37 to 46 years from the dates of acquisition.

As at 31 December 2007, the net book amount of the Group's land use rights of approximately RMB54,242,000 (2006: RMB4,000,000) was pledged as collateral for the Group's bank loans *(Note 22(a))*.

The amortisation of land use rights is charged to general and administrative expenses.

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture and fixtures	Vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006						
Cost	209,407	273,872	18,688	26,349	29,149	557,465
Accumulated depreciation and impairment losses	(47,028)	(153,770)	(8,999)	(10,942)	—	(220,739)
Net book amount	162,379	120,102	9,689	15,407	29,149	336,726
Year ended 31 December 2006						
Opening net book amount	162,379	120,102	9,689	15,407	29,149	336,726
Additions	954	874	1,366	4,502	46,019	53,715
Transfer	3,982	2,628	—	—	(6,610)	—
Disposal	—	—	—	(341)	(25)	(366)
Depreciation for the year *(Note 27)*	(6,858)	(18,271)	(2,201)	(2,802)	—	(30,132)
Closing net book amount	160,457	105,333	8,854	16,766	68,533	359,943
At 31 December 2006						
Cost	214,343	277,374	20,054	30,264	68,533	610,568
Accumulated depreciation and impairment losses	(53,886)	(172,041)	(11,200)	(13,498)	—	(250,625)
Net book amount	160,457	105,333	8,854	16,766	68,533	359,943
Year ended 31 December 2007						
Opening net book amount	160,457	105,333	8,854	16,766	68,533	359,943
Additions resulting from acquisition of subsidiary	98,800	156,807	5,914	4,098	6,592	272,211
Additions	5,898	19,510	2,213	7,564	54,243	89,428
Transfer	13,040	12,624	—	—	(25,664)	—
Disposal	(646)	(642)	(18)	(386)	—	(1,692)
Depreciation for the year *(Note 27)*	(9,694)	(28,482)	(3,986)	(3,904)	—	(46,066)
Closing net book amount	267,855	265,150	12,977	24,138	103,704	673,824
At 31 December 2007						
Cost	330,609	464,632	27,943	41,246	103,704	968,134
Accumulated depreciation and impairment losses	(62,754)	(199,482)	(14,966)	(17,108)	—	(294,310)
Net book amount	267,855	265,150	12,977	24,138	103,704	673,824

7. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group *(Continued)*

The buildings are located in Shaanxi Province and Hebei Province, the PRC.

The depreciation of property, plant and equipment is charged to cost of sales, selling and marketing costs and general and administrative expenses for RMB28,518,000 (2006: RMB18,581,000), RMB1,623,000 (2006: RMB1,399,000) and RMB15,925,000 (2006: RMB10,152,000).

As at 31 December 2007, bank borrowings are secured on buildings and machineries for the value of RMB191,221,000 (2006: nil) *(Note 22(a))*.

Company

	Furniture and fixtures	Vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2006			
Opening net book amount	1,040	—	1,040
Addition	18	1,830	1,848
Charge for the year	(104)	(225)	(329)
Closing net book amount	954	1,605	2,559
At 31 December 2006			
Cost	1,094	1,830	2,924
Accumulated depreciation and impairment losses	(140)	(225)	(365)
Net book amount	954	1,605	2,559
Year ended 31 December 2007			
Opening net book amount	954	1,605	2,559
Addition	1,129	65	1,194
Charge for the year	(177)	(404)	(581)
Closing net book amount	1,906	1,266	3,172
At 31 December 2007			
Cost	2,223	1,895	4,118
Accumulated depreciation and impairment losses	(317)	(629)	(946)
Net book amount	1,906	1,266	3,172

8. INTANGIBLE ASSETS — GROUP

	Trademarks and customer bases	Goodwill	Patent	Software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006					
Cost	—	751	—	—	751
Accumulated amortisation and impairment	—	(751)	—	—	(751)
Net book amount	—	—	—	—	—
Year ended 31 December 2006					
Opening net book amount	—	—	—	—	—
Additions	—	—	7,367	—	7,367
Amortisation for the year *(Note 27)*	—	—	(384)	—	(384)
Closing net book amount	—	—	6,983	—	6,983
At 31 December 2006					
Cost	—	751	7,367	—	8,118
Accumulated amortisation and impairment	—	(751)	(384)	—	(1,135)
Net book amount	—	—	6,983	—	6,983
Year ended 31 December 2007					
Opening net book amount	—	—	6,983	—	6,983
Additions resulting from acquisitions of subsidiary	104,700	401,777	—	146	506,623
Additions	—	—	3,687	20	3,707
Amortisation for the year *(Note 27)*	(1,047)	—	(1,172)	(17)	(2,236)
Closing net book amount	103,653	401,777	9,498	149	515,077
At 31 December 2007					
Cost	104,700	401,777	11,054	302	517,833
Accumulated amortisation and impairment	(1,047)	—	(1,556)	(153)	(2,756)
Net book amount	103,653	401,777	9,498	149	515,077

Goodwill is allocated to the pharmaceutical business acquired during the year *(Note 36)*, the Group's cash-generating unit (CGU) identified.

The recoverable amount of a CGU is determined based on the value-in-use calculation. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated below.

8. INTANGIBLE ASSETS — GROUP *(Continued)*

The key assumptions other than the financial budgets covering a 5-year period, used for value-in-use calculations are growth rate and pre-tax discount rate of 3% and 17.2%, respectively.

Management has performed sensitivity analysis based on the revised assumptions on growth rate and pre-tax discount rate of 2% and 18%, respectively. Based on these revised assumptions, the Group will not have to recognise further impairment loss.

9. INVESTMENTS IN SUBSIDIARIES — COMPANY

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Unlisted shares	**1,032,482**	323,697

The following is a list of the principal subsidiaries at 31 December 2007:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Paid in, issued and fully paid share capital	Interest held	
				2007	2006
Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun")	Limited liability company incorporated in PRC	Manufacturing and sale of pharmaceutical products in PRC	RMB280,000,000	**100% (Directly held)**	100% (Directly held)
Shaanxi Lijun Modern Chinese Medicine Co., Ltd ("Modern Chinese Medicine")	Limited liability company incorporated in PRC	Manufacturing and sale of traditional Chinese medicine in PRC	RMB20,000,000	**80.68% (Indirectly held)**	51% (Indirectly held)
Shenzhen Lijun Pharmaceutical Co., Ltd. ("Shenzhen Lijun")	Limited liability company incorporated in PRC	Manufacturing and sale of pharmaceutical products in PRC	RMB5,000,000	**68% (Indirectly held)**	—
New Orient Investments Limited ("New Orient")	Limited liability company incorporated in BVI	Investment holding Company in Hong Kong	USD1	**100% (Directly held)**	—
Shijiazhuang No. 4 Pharmaceutical Co., Ltd ("No. 4 Pharm")	Limited liability company incorporated in PRC	Manufacturing and sale of pharmaceutical products in PRC	RMB92,880,000	**100% (Indirectly held)**	—

10. DEFERRED INCOME TAX — GROUP

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	**3,874**	5,455
— Deferred tax asset to be recovered within 12 months	**8,817**	2,947
	12,691	8,402
Deferred tax liabilities:		
— Deferred tax liabilities to be settled after more than 12 months	**38,531**	—
— Deferred tax liabilities to be settled within 12 months	**796**	—
	39,327	—

The movements in deferred tax assets are as follows:

	Accrual of sales commission and others	**Provisions for impairment of trade receivables**	**Inventory write-down**	**Timing difference in expense recognition**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	—	2,907	1,171	3,358	7,436
Credited/(charged) to the consolidated income statement	2,663	(1,109)	(143)	(445)	966
At 31 December 2006	2,663	1,798	1,028	2,913	8,402
Increase due to acquisition of subsidiary	—	—	—	1,028	1,028
Credited/(charged) to the consolidated income statement	982	(330)	(384)	2,993	3,261
At 31 December 2007	3,645	1,468	644	6,934	12,691

10. DEFERRED INCOME TAX — GROUP *(Continued)*

The movements in deferred tax liabilities are as follows:

	Equity component of convertible bonds *RMB'000*	Depreciation difference resulting from revaluation *RMB'000*	Total *RMB'000*
At 31 December of 2005 and 2006	—	—	—
Credited to the consolidated income statement	—	(611)	(611)
Charged directly to equity	1,756	—	1,756
Acquisition of subsidiary	—	38,182	38,182
At 31 December 2007	1,756	37,571	39,327

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Beginning of year	**609**	609
Additions *(Note 37(b))*	**3,900**	—
Disposal	**(480)**	—
End of year	**4,029**	609

Available-for-sale financial assets including the following:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Listed securities	**—**	480
Unlisted securities	**4,029**	129
	4,029	609

All the available-for-sale financial assets are denominated in RMB.

12. INVENTORIES — GROUP

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	**85,834**	38,934
Work in progress	**30,600**	23,874
Finished goods	**71,328**	32,229
	187,762	95,037
Less: Provision for write-down of inventory	**(9,472)**	(9,552)
	178,290	85,485

The Group reversed RMB80,000 (2006: RMB209,000) for impairment of inventories during the year ended 31 December 2007. The reversal has been included in cost of sales *(Note 27)*.

The cost of inventories recognized as expenses and included in "cost of sales" amounted to RMB399,916,000 (2006: RMB299,274,000).

13. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Group

	Receivables	**Assets at fair value through profit or loss**	**Available-for-sale**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets as per consolidated balance sheet				
31 December 2007				
Available-for-sale financial assets *(Note 11)*	—	—	4,029	4,029
Trade and bills receivable *(Note 15)*	309,760	—	—	309,760
Other financial assets at fair value through profit or loss *(Note 17)*	—	462	—	462
Restricted cash *(Note 18)*	40,242	—	—	40,242
Cash and cash equivalents *(Note 19)*	92,686	—	—	92,686
Total	442,688	462	4,029	447,179
31 December 2006				
Available-for-sale financial assets *(Note 11)*	—	—	609	609
Trade and bills receivable *(Note 15)*	215,867	—	—	215,867
Restricted cash *(Note 18)*	16,248	—	—	16,248
Cash and cash equivalents *(Note 19)*	167,387	—	—	167,387
Total	399,502	—	609	400,111

13. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	Other financial liabilities *RMB'000*
Liabilities as per consolidated balance sheet	
31 December 2007	
Borrowings *(Note 22)*	349,138
Convertible bonds *(Note 22(b))*	141,520
Total	490,658
31 December 2006	
Borrowings *(Note 22)*	209,376

Company

	Receivables *RMB'000*
Assets as per balance sheet	
31 December 2007	
Restricted cash	19,557
Cash and cash equivalents *(Note 19)*	13,136
Total	32,693
31 December 2006	
Restricted cash	16,248
Cash and cash equivalents *(Note 19)*	13,740
Total	29,988

	Other financial liabilities *RMB'000*
Liabilities as per balance sheet	
31 December 2007	
Borrowings *(Note 22)*	124,538
Convertible bonds	141,520
Total	266,058
31 December 2006	
Borrowings *(Note 22)*	80,376

14. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade and bills receivable

	As at 31 December	
	2007 *RMB'000*	2006 *RMB'000*
Counterparties without external credit rating		
Group 1	**63,673**	54,955
Group 2	**256,150**	172,599
	319,823	227,554
Total trade and bills receivable	**319,823**	227,554

Group 1 — notes receivables
Group 2 — customers with no defaults in the past

Restricted bank balances and cash equivalents

	Group As at 31 December		Company As at 31 December	
	2007 *RMB'000*	2006 *RMB'000*	**2007** *RMB'000*	2006 *RMB'000*
Group 1	**14,429**	14,134	**14,403**	14,134
Group 2	**49,344**	101,594	**17,872**	14,986
Group 3	**68,537**	66,693	**—**	—
Cash in bank	**132,310**	182,421	**32,275**	29,120
Cash on hand	**618**	1,214	**418**	868
	132,928	183,635	**32,693**	29,988

Group 1 — Major international banks
Group 2 — Top 4 banks in mainland China (Construction Bank of China, Bank of China, Agriculture Bank of China and Industry and Commercial Bank of China)
Group 3 — Other local banks and financial institutions in mainland China

15. TRADE AND OTHER RECEIVABLES — GROUP

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**319,823**	227,554
Less: provision for impairment of receivables	**(10,063)**	(11,687)
Trade receivables — net	**309,760**	215,867
Prepayment	**19,594**	11,681
Other receivables	**30,610**	35,358
	359,964	262,906

As at 31 December 2007 and 2006, the carrying amount of the Group's trade and other receivables approximated their fair value.

The Group generally required its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**248,397**	182,551
4 to 6 months	**44,203**	24,027
7 to 12 months	**21,429**	14,185
1 to 2 years	**3,826**	2,265
2 to 3 years	**590**	683
More than 3 years	**1,378**	3,843
	319,823	227,554
Less: Provision for impairment of receivables	**(10,063)**	(11,687)
	309,760	215,867

15. TRADE AND OTHER RECEIVABLES — GROUP *(Continued)*

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
RMB	**312,974**	217,176
USD	**6,849**	10,378
	319,823	227,554

As at 31 December 2007, trade receivables of RMB44,603,000 (2006: RMB24,427,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
4 to 6 months	**44,203**	24,027
7 to 12 months	**400**	400
	44,603	24,427

As at 31 December 2007, trade receivables of RMB26,823,000 (2006: RMB20,576,000) were impaired. The amount of the provision was RMB10,063,000 as at 31 December 2007 (2006: RMB11,687,000). The individually impaired receivables mainly relate to distributors. The ageing of these receivables is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
7 to 12 months	**21,029**	13,785
1 to 2 years	**3,826**	2,265
2 to 3 years	**590**	683
More than 3 years	**1,378**	3,843
	26,823	20,576

15. TRADE AND OTHER RECEIVABLES — GROUP *(Continued)*

Movements on the provision for impairment of trade receivables are as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**11,687**	22,507
Provision for receivable impairment	**1,593**	3,658
Receivables written off during the year as uncollectible	**(3,217)**	(14,478)
At 31 December	**10,063**	11,687

The creation and release of provision for impaired receivables have been included in 'Provision for impairment of receivables' in the income statement *(Note 27)*. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Receivables relating to disposal of staff quarters	**8,487**	16,416	**—**	—
Prepayments to suppliers	**19,595**	11,681	**—**	—
Prepaid advertising expenses	**10,218**	7,774	**—**	—
Receivables relating to disposal of land use right	**—**	2,940	**—**	—
Amount due from a subsidiary	**—**	—	**43,790**	—
Other receivables	**11,904**	8,228	**1,932**	2,890
	50,204	47,039	**45,722**	2,890

17. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS — GROUP

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Listed securities:		
— Equity securities — PRC	**462**	—

Changes in fair value of other financial assets at fair value through profit or loss are recorded in "Other gain — net" in the income statement *(Note 26)*.

The fair value of all equity securities is based on their current bid prices in an active market.

18. RESTRICTED CASH

As at 31 December 2007, the Group has restricted deposits amounting to RMB40,242,000 (2006: RMB16,248,000) as guarantees of the bank borrowings, letter of credits and bank acceptances.

19. CASH AND CASH BALANCES

Bank and cash balances were denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**78,646**	116,068	**20**	—
HKD	**12,827**	46,469	**12,824**	13,740
EUR	**—**	4,690	**—**	—
USD	**1,213**	160	**292**	—
	92,686	167,387	**13,136**	13,740

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**84,705**	158,183	**5,155**	4,536
Short-term bank deposits	**7,981**	9,204	**7,981**	9,204
	92,686	167,387	**13,136**	13,740

The interest rates at the balance sheet date were as follows:

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short-term bank deposits	**2.64%**	3.22%	**2.64%**	3.22%

The maturity date of short-term bank deposits is 7 days (2006: 7 days).

20. SHARE CAPITAL

	Number of shares *(thousands)*	Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 31December 2005 and 2006	290,500	30,229	121,239	151,468
New shares issued	110,000	10,719	509,103	519,822
Conversion of convertible bonds	17,152	328	13,974	14,302
Share subdivision	1,602,000	—	—	—
At 31 December 2007	2,019,652	41,276	644,316	685,592

The total authorised number of ordinary share is 10,000,000,000 (2006: 1,000,000,000), with a par value of HK$0.02 per share (2006: HK$0.10 per share).

Pursuant to the resolutions passed at the extraordinary general meeting held at on 28 August 2007, every one existing issued and unissued shares of HK$0.10 each in the capital of the Company was subdivided into five shares, which should rank pari passu in all respects with each other and had the same rights and privileges that were subject to the restrictions contained in the Articles of Association of the Company. In the connection, the conversion price of the convertible bonds *(Note 22)* had adjusted from HK$4.15 to HK$0.83.

During the year ended 31 December 2007, certain amounts of the convertible bonds *(Note 22)* amounting to RMB14,000,000 were converted to 17,152,000 of ordinary share of the Company at the fixed exchange rate of HK$1 to RMB0.98339 and fixed conversion price of HK$0.83.

21. RESERVES

Group

	Share premium RMB'000	Capital reserve (Note a) RMB'000	Equity component of convertible bonds RMB'000	Statutory reserves (Note b) RMB'000	Exchange difference RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2006	121,239	168,752	—	59,753	—	120,752	470,496
Profit for the year	—	—	—	—	—	84,575	84,575
Transfer to statutory reserves	—	—	—	11,236	—	(11,236)	—
Dividends	—	—	—	—	—	(68,472)	(68,472)
Acquisition of minority interest	—	(11,859)	—	—	—	—	(11,859)
Exchange difference	—	—	—	—	(2,652)	—	(2,652)
At 31 December 2006	121,239	156,893	—	70,989	(2,652)	125,619	472,088
Equity component of convertible bonds	—	—	9,073	—	—	—	9,073
Profit for the year	—	—	—	—	—	116,007	116,007
Transfer to statutory reserves	—	—	—	17,855	—	(17,855)	—
Dividends	—	—	—	—	—	(39,146)	(39,146)
Issue of shares	509,103	—	—	—	—	—	509,103
News shares issued as a result of conversion of convertible bonds	13,974	—	(795)	—	—	—	13,179
Acquisition of minority interest	—	(2,328)	—	—	—	—	(2,328)
At 31 December 2007	644,316	154,565	8,278	88,844	(2,652)	184,625	1,077,976

21. RESERVES *(Continued)*

Company

	Share premium RMB'000	Capital surplus RMB'000	Equity component of convertible bonds RMB'000	Exchange difference RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2006	121,239	152,040	—	—	54,426	327,705
Profit for the year	—	—	—	—	35,574	35,574
Dividends	—	—	—	—	(68,472)	(68,472)
Exchange difference	—	—	—	(2,652)	—	(2,652)
At 31 December 2006	121,239	152,040	—	(2,652)	21,528	292,155
Equity component of convertible bonds	—	—	9,073	—	—	9,073
Profit for the year	—	—	—	—	53,957	53,957
Dividends	—	—	—	—	(39,146)	(39,146)
Issue of shares	509,103	—	—	—	—	509,103
New shares issued as a result of conversion of convertible bonds	13,974	—	(795)	—	—	13,179
At 31 December 2007	644,316	152,040	8,278	(2,652)	36,339	838,321

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Retained earnings representing:				
— Proposed final dividend	**11,388**	20,430	**11,388**	20,430
— Others	**173,237**	105,189	**24,951**	1,098
Total retained earnings	**184,625**	125,619	**36,339**	21,528

(a) Capital reserve

Capital reserve of the Company includes the difference between the Company's 80% share in paid-up capital of Xi'an Lijun Pharmaceutical Co., Ltd. and the nominal value of the share capital issued by the Company upon its initial public offering reorganisation.

21. RESERVES *(Continued)*

(b) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the Group's subsidiaries established in the PRC, each of the Group's subsidiaries is required to set aside 10% of its statutory net profit for the year after offsetting any prior years' accumulative losses as determined under the PRC accounting regulations to the statutory surplus reserve fund before distributing their net profit. When the balance of such reserve reaches 50% of each PRC subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the PRC subsidiary's share capital after such issuance.

22. BORROWINGS

(a) Bank borrowings

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Bank borrowings	**84,760**	28,131	**69,760**	28,131
Convertible bonds	**141,520**	—	**141,520**	—
	226,280	28,131	**211,280**	28,131
Current				
Short-term bank borrowings	**237,691**	169,188	**28,091**	40,188
Current portion of long term bank borrowings	**26,687**	12,057	**26,687**	12,057
	264,378	181,245	**54,778**	52,245
Total borrowings	**490,658**	209,376	**266,058**	80,376
Representing:				
Unsecured	**192,320**	124,000	**98,320**	—
Secured (i)	**121,818**	5,000	**26,218**	—
Guaranteed (ii)	**35,000**	80,376	**—**	80,376
	349,138	209,376	**124,538**	80,376

(i) As at 31 December 2007, the net book amount of the Group's land use rights *(Note 6)* of RMB54,242,000 was pledged as collateral for the Group's bank borrowings (2006: RMB4,000,000).

As at 31 December 2007, the net book amount of the Group's buildings and machineries *(Note 7)* of RMB62,764,000 and RMB128,457,000 were pledged as collateral for the Group's bank borrowings (2006: nil).

As at 31 December 2007, the net book amount of the Group's bank deposits *(Note 18)* of RMB19,557,000 was pledged as collateral for the Group's bank borrowings (2006: RMB16,248,000).

22. BORROWINGS *(Continued)*

(a) Bank borrowings *(Continued)*

(ii) As at 31 December 2007, bank borrowings amounting to RMB35,000,000 (2006: nil) were guaranteed by Hebei Yuanzheng Pharmaceutical Co., Ltd, an entity formerly controlled by CMP Group Limited.

At 31 December 2007, the Group's borrowings were repayable as follows:

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**264,378**	181,245	**54,778**	52,245
Between 1 and 2 years	**53,157**	16,075	**38,157**	16,075
Between 2 and 5 years	**31,603**	12,056	**31,603**	12,056
Wholly repayable within 5 years	**349,138**	209,376	**124,538**	80,376
Over 5 years	**—**	—	**—**	—
	349,138	209,376	**124,538**	80,376

The effective interest rates at the balance sheet date were as follows:

	As at 31 December					
	2007			2006		
	HK$	**RMB**	**Overall**	HK$	RMB	Overall
Bank borrowings	**5.6914%**	**6.3858%**	**6.1381%**	5.4800%	5.7014%	5.6164%
Convertible bonds	**—**	**9.4885%**	**9.4885%**	—	—	—

The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates are as follows:

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
6 months or less	**193,091**	144,207	**7,491**	44,207
6 — 12 months	**71,287**	37,037	**47,287**	8,037
1 — 5 years	**84,760**	28,132	**69,760**	28,132
	349,138	209,376	**124,538**	80,376

22. BORROWINGS *(Continued)*

(a) Bank borrowings *(Continued)*

The carrying amounts and fair value of the non-current borrowings are as follows:

	Group As at 31 December				Company As at 31 December			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**84,760**	28,131	**84,760**	28,131	**69,760**	28,131	**69,760**	28,131
Convertible bonds	**141,520**	—	**147,688**	—	**141,520**	—	**147,688**	—
	226,280	28,131	**232,448**	28,131	**211,280**	28,131	**232,448**	28,131

The fair values of non-current borrowings are based on cash flows discounted using a rate based on the borrowings rate of 6.14% (2006: 5.62%).

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the borrowings (including convertible bonds) are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HKD	**124,538**	80,376	**124,538**	80,376
RMB	**366,120**	129,000	**141,520**	—
	490,658	209,376	**266,058**	80,376

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Floating rate		
— expiring within one year	**38,846**	364,000
Fixed rate		
— expiring within one year	**170,000**	—
— expiring beyond one year	**30,000**	—
	238,846	364,000

22. BORROWINGS *(Continued)*

(b) Convertible bonds

On 30 May 2007, the Company issued zero-coupon convertible bonds due on 30 May 2010 (the "maturity date") in the aggregate principal amount of RMB160,000,000 with initial conversion price of HK$4.15 per ordinary share of the Company at a fixed exchange rate of HK$1 to RMB0.98339 (adjusted to HK$0.83 on 28 August 2007 after the share sub-division *(Note 20)*). Unless previously redeemed, converted or purchased and cancelled as provided in the terms and conditions of the convertible bonds, the Company has to redeem the convertible bonds at 121.1547 per cent of their principle amount on the maturity date.

The fair value of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity as reserves.

The convertible bonds recognised in the balance sheet are calculated as follows:

	RMB'000
Face value of convertible bond issued on 30 May 2007	**160,000**
Equity component net of deferred tax liability	**(9,073)**
Deferred income tax liability	**(1,924)**
Issuance expenditure	**(2,128)**
Liability component on initial recognition at 30 May 2007	**146,875**
Interest expense	**7,984**
Recognition of deferred income tax liability	**168**
Converted to ordinary shares	**(13,507)**
Liability component at 31 December 2007	**141,520**

The fair value of the liability component of the convertible bonds at 31 December 2007 amounted to RMB147,688,000. The fair values of convertible bonds are based on cash flows discounted using a rate based on the market interest rate of 6.14% per annum.

23. LONG-TERM PAYABLES — GROUP

Long term payables mainly represent retirement benefits and early retirement allowance payable to the employees of Xi'an Lijun and No. 4 Pharm.

The maturity profile of the long-term payable is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Within 1 year	**4,691**	2,361
Between 1 to 2 years	**3,424**	2,362
Between 2 to 5 years	**4,863**	3,557
More than 5 years	**8,239**	6,794
	21,217	15,074
Less: Current portion included in current liabilities	**(4,691)**	(2,361)
	16,526	12,713

The amounts of post-employment benefits recognised in the balance sheet are determined as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Present value of benefit plans	**21,217**	15,074
Liability in the balance sheet	**21,217**	15,074

The post-employment benefits recognised in the income statement are as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Post-employment benefits	**4,982**	1,830

The movement of post-employment benefits recognised in the balance sheet is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Beginning of the year	**15,074**	13,244
Additions resulting from acquisition of a subsidiary	**1,389**	—
Total expense, included in staff costs as shown above	**4,982**	1,830
Contribution paid	**(228)**	—
End of the year	**21,217**	15,074

23. LONG-TERM PAYABLES — GROUP *(Continued)*

The above obligations were determined by management using the projected unit credit method.

Discount rates adopted and resign rate adopted are as follows:

	As at 31 December	
	2007	2006
Post-employment benefits discount rate	**4.75%**	4.75%
Annual resign rate	**2.7%**	2.7%

24. TRADE AND BILLS PAYABLE — GROUP

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Trade payable	**116,158**	52,192
Bills payable	**13,000**	—
	129,158	52,192

At 31 December 2007, the aging analysis of the trade and bills payables were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**92,087**	36,186
4 to 6 months	**19,919**	1,296
7 to 12 months	**4,746**	657
1 to 3 years	**10,630**	12,272
More than 3 years	**1,776**	1,781
	129,158	52,192

25. ACCRUALS AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accrued distribution expenses	**23,362**	21,190	**—**	—
Taxation payables, other than income tax	**17,048**	13,212	**—**	—
Payable for property, plant and equipment	**20,154**	11,343	**—**	—
Welfare payables	**8,127**	11,618	**—**	—
Salary and wages payable	**2,187**	10,240	**96**	—
Amount due to Rejoy Group Limited Liability Company ("Rejoy Group")	**—**	6,350	**—**	—
Payable for land use right	**1,800**	—	**—**	—
Deposits from employees	**4,912**	5,972	**—**	—
Advertising expense payables	**2,503**	3,027	**—**	—
Accrued management bonus	**2,584**	2,380	**—**	—
Accrued advertising expenses	**1,969**	961	**—**	—
Professional fee payables	**2,809**	761	**769**	761
Accrued expenses for acquisition of subsidiary	**2,771**	—	**2,771**	—
Accrued interest payable	**2,286**	—	**903**	—
Others	**4,571**	9,595	**1,417**	—
	97,083	96,649	**5,956**	761

As at 31 December 2007, the net book amount of the Group's bank deposits *(Note 18)* of RMB14,842,000 was pledged as collateral for the payable for property, plant and equipment (2006: nil).

26. REVENUE AND OTHER GAINS — GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products. Revenue recognised is as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Revenue:		
— Sales of pharmaceutical products	**1,101,266**	857,456
— Processing income	**2,263**	2,312
— Sales of raw materials and by products	**822**	873
— Rental income	**1,495**	—
	1,105,846	860,641
Other gains — net:		
— Investment income	**16,701**	176
— Subsidy income	**510**	—
— Others	**6,425**	—
	23,636	176
	1,129,482	860,817

27. EXPENSE BY NATURE — GROUP

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Raw materials and consumables used	**419,946**	307,306
Sales commission	**126,681**	105,865
Staff costs including directors' emoluments		
— wages and salaries	**103,266**	67,307
— pension costs	**18,498**	12,036
— welfare expenses	**23,949**	17,463
Utility expenses	**60,968**	54,032
Advertising expenses	**56,528**	52,999
Depreciation of property, plant and equipment	**46,066**	30,132
Research and development costs	**2,191**	7,833
Operating leases — rental expenses in respect of land use right in the PRC	**5,568**	5,461
Provision for impairment of receivables	**1,593**	3,658
Auditors' remuneration	**3,166**	2,300
Amortisation of intangible assets (charged to general and administrative expenses)	**2,236**	384
Amortisation of land use rights (charged to general and administrative expenses)	**1,072**	69
Loss on disposal of property, plant and equipment	**1,183**	61
Reversal of inventory write-down	**(80)**	(209)
Changes in inventories of finished goods and work in progress	**(20,030)**	(8,032)
Others	**120,119**	104,859
Total cost of sales, selling and marketing costs and general and administrative expenses	**972,920**	763,524

28. FINANCE INCOME AND COSTS — GROUP

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Financial income		
— Interest income on bank deposits	**3,757**	5,340
— Foreign exchange gain	**57**	—
	3,814	5,340
Financial costs		
— Interest expense on bank borrowings wholly repayable within five years	**18,629**	10,232
— Interest expenses on discount of notes receivables	**5,652**	—
— Interest expenses for convertible bonds	**7,984**	—
	32,265	10,232

29. INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

No Hong Kong profits tax was provided as the Group had no assessable profit in Hong Kong during the year.

In May 2005, the PRC Enterprise Income Tax ("EIT") rate of Xi'an Lijun Pharmaceutical Co., Ltd. has been approved to be 24%, which was effective from 1 January 2005. Being incorporated as foreign investment enterprise in the PRC, Xi'an Lijun Pharmaceutical Co., Ltd. has obtained approvals in May 2005 from the relevant tax authorities in Xi'an, which is also effective from 1 January 2005, for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC.

The PRC EIT rate of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. has been approved to be 24%, which was effective from 1 January 2005. Being incorporated as foreign investment enterprise in the PRC, Shijiazhuang No. 4 Pharmaceutical Co., Ltd. has obtained approvals from the relevant tax authorities in Shijiazhuang, which is also effective from 1 January 2005, for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC. Shijiazhuang No. 4 Pharmaceutical Co., Ltd. began its tax holiday since 2005.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which will be effective from 1 January 2008. According to the new CIT Law, the PRC income tax for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. There will be a transition period for enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to a PRC income tax rate lower than 25% may continue to enjoy the lower PRC income tax rate and gradually transfer to the new PRC income tax rate within five years after the effective date of the new CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

The amounts of taxation credited/(charged) to the income statement represent:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Current taxation — EIT	**(15,947)**	—
Deferred taxation	**3,872**	966
	(12,075)	966

29. INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using EIT rate as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit before income tax	**128,111**	92,401
Weighted average EIT rates in the PRC	**24%**	24%
Tax calculated at the weighted average EIT rate	**(30,747)**	(22,176)
Tax exemption	**19,576**	21,755
Effect of change in the estimate of the reversal period of temporary differences in which different tax rates are applied	**350**	1,387
Expenses not deductible for tax purposes	**(1,254)**	—
Tax charge	**(12,075)**	966

30. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB53,957,000 (2006: RMB35,574,000).

31. RETIREMENT BENEFITS — GROUP

(a) Pension obligations

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 8%, respectively, of the employees' basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. Moreover, the Group would pay monthly allowance to old retirement persons. The Group has no further pension obligation beyond the above contributions.

(b) Early retirement benefits

Compensation for early retirement is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS — GROUP

(a) Directors' emoluments

The emoluments of all executive and non-executive directors during the year, on a named basis, are set out as below:

Name of Director	Salary	Fees	Other benefits	Contribution to state-sponsored retirement plans	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007					
Executive Directors					
Mr. Wu Qin	1,764	—	16	—	1,780
Mr. Qu Jiguang	1,355	87	8	1	1,451
Mr. Wu Zhihong	679	—	7	6	692
Mr. Huang Chao	582	—	6	6	594
Mr. Xie Yunfeng	417	—	3	6	426
Ms. Sun Xinglai	478	—	101	—	579
Mr. Wang Xianjun	863	—	313	—	1,176
Mr. Duan Wei	291	—	3	5	299
Mr. Wang Zhizhong	242	—	3	5	250
Ms. Zhang Guifu	145	—	3	5	153
	6,816	87	463	34	7,400
Non-executive Directors					
Mr. Liu Zhiyong	—	58	—	—	58
Independent Non-executive Director					
Mr. Wang Yibing	—	73	—	—	73
Mr. Leung Chong Shun	—	174	—	—	174
Mr. Chow Kwok Wai	—	174	—	—	174
	—	421	—	—	421
	6,816	566	463	34	7,879

32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS — GROUP *(Continued)*

(a) Directors' emoluments *(Continued)*

Name of Director	Salary	Fees	Other benefits	Contribution to state-sponsored retirement plans	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2006					
Executive Directors					
Mr. Wu Qin	914	—	25	4	943
Mr. Wu Zhihong	754	—	8	4	766
Mr. Huang Chao	608	—	8	4	620
Mr. Xie Yunfeng	367	—	4	4	375
Ms. Sun Xinglai	543	—	21	4	568
Mr. Wang Xianjun	804	—	17	—	821
	3,990	—	83	20	4,093
Non-executive Directors					
Mr. Liu Zhiyong	—	60	—	—	60
Independent Non-executive Director					
Mr. Qu Jiguang	—	181	—	—	181
Mr. Leung Chong Shun	—	181	—	—	181
Mr. Chow Kwok Wai	—	181	—	—	181
	—	543	—	—	543
	3,990	603	83	20	4,696

No Directors of the Company waived any emoluments during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years are also directors of the Company and their emoluments are detailed in (a) above.

(c) During the year, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

33. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year *(Note 20)*.

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**116,007**	84,575
Weighted average number of ordinary shares in issue (thousands)	**1,734,867**	290,500
Adjustments for the subdivision of share capital in 2007 for the purpose of comparison (thousands) *(Note 20)*	**—**	1,162,000
Weighted average number of ordinary shares in issue after adjustment (thousands)	**1,734,867**	1,452,500
Basic earnings per share (RMB per share)	**0.067**	0.058

33. EARNINGS PER SHARE *(Continued)*

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: convertible debt. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**116,007**	84,575
Interest expenses on convertible debt (net of tax)	**7,984**	—
Profit used to determine diluted earnings per share	**123,991**	84,575
Weighted average number of ordinary shares in issue (thousands)	**1,734,867**	290,500
Adjustments for conversion of convertible debt (thousands)	**178,875**	—
Adjustments for the subdivision of share capital in 2007 for the purpose of comparison (thousands) *(Note 20)*	**—**	1,162,000
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,913,742**	1,452,500
Diluted earnings per share (RMB per share)	**0.065**	0.058

34. DIVIDENDS

An interim dividend of HK$0.01 (on a post-subdivision basis) per share, amounting to a total dividend of RMB19,306,000 was approved at the meeting of the board of directors on 10 September 2007.

The directors recommend the payment of a final dividend of HK$0.006 (on a post-subdivision basis) per ordinary share, totaling HK$12,162,000. Such dividend is to be approved by the shareholders at the upcoming Annual General Meeting. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Approved interim dividend of HK$0.01 (on a post-subdivision basis) (2006: HK$0.07 (on a pre-subdivision basis)) per ordinary share	**19,306**	20,933
Proposed final dividend of HK$0.006 (on a post-subdivision basis) (2006: HK$0.07 (on a pre-subdivision basis)) per ordinary share	**11,388**	20,430
	30,694	41,363

35. CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit before income tax	**128,111**	92,401
Provision for impairment of receivables	**1,593**	3,658
Reversal of inventory write-downs	**(80)**	(209)
Depreciation of property, plant and equipment	**46,066**	30,132
Loss on disposals of property, plant and equipment	**1,183**	61
Amortisation of land use rights	**1,072**	69
Amortisation of intangible assets	**2,236**	384
Fair value gains on other financial assets at fair value through profit or loss *(Note 26)*	**(16,701)**	—
Interest income *(Note 28)*	**(3,757)**	(5,340)
Interest expense *(Note 28)*	**32,265**	10,232
Foreign exchange gains on operating activities *(Note 28)*	**(57)**	—
Operating profit before working capital changes	**191,931**	131,388
Changes in working capital:		
(Increase)/decrease in inventories	**(52,874)**	8,109
Increase in trade and bills receivables	**(20,337)**	(59,361)
Decrease/(increase) in prepayments, deposits and other receivables	**11,465**	(11,252)
Increase in amounts due from related parties	**—**	(8,838)
Increase/(decrease) in trade and bills payables and deposits and advance receipts from customers	**12,717**	(11,928)
Decrease in accruals and other payables	**(22,961)**	(12,328)
Decrease in amounts due to related parties	**—**	(310)
Net cash inflow generated from operations	**119,941**	35,480

(b) Proceeds from disposal of property, plant and equipment

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net book amount disposed *(Note 7)*	**1,692**	366
Loss on disposal of property, plant and equipment *(Note 27)*	**(1,183)**	(61)
Proceeds from disposal of property, plant and equipment	**509**	305

36. BUSINESS COMBINATIONS — GROUP

(a) Acquisition of New Orient

On 29 June 2007, the Company acquired 100% of the share capital of New Orient from CMP Group Limited, a related company. New Orient is engaged in manufacture and distribution of pharmaceutical products.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
— cash paid	186,110
— shares issued *(Note 20)*	519,822
— direct costs relating to the acquisition	12,396
— cash paid for shareholder's loans of acquiree	(10,953)
Total purchase consideration	707,375
— fair value of net identifiable assets acquired	(305,598)
Goodwill	401,777

The goodwill is attributable to New Orient's market position and profitability and the significant synergies expected to arise after its acquisition by the Group.

The fair value of the shares issued was based on the published share price (29 June 2007).

36. BUSINESS COMBINATIONS — GROUP *(Continued)*

(a) Acquisition of New Orient *(Continued)*

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount *RMB'000*	Fair value *RMB'000*
Land use rights	24,532	60,565
Property, plant and equipment	249,773	272,211
Customer base (included in intangibles)	—	60,340
Trademarks (included in intangibles)	—	44,360
Other intangible assets	146	146
Deferred income tax assets	1,027	1,027
Inventories	39,851	39,851
Trade and bills receivables	75,148	75,148
Prepayments, deposits and other receivables	14,731	14,731
Restricted cash	4,474	4,474
Cash and cash equivalents	33,472	33,472
Long-term bank borrowings	(10,000)	(10,000)
Long-term payables	(1,229)	(1,229)
Deferred income tax liabilities	—	(38,182)
Shareholder's loans	(10,953)	(10,953)
Trade and bills payables	(73,680)	(73,680)
Deposits and advance receipts from customers	(2,100)	(2,100)
Accruals and other payables	(15,746)	(15,746)
Income tax payable	(3,077)	(3,077)
Short-term bank borrowings	(130,600)	(130,600)
Current portion of long-term bank borrowings	(15,000)	(15,000)
Current portion of long-term payables	(160)	(160)
Net identifiable assets acquired	180,609	305,598

Outflow of cash to acquire business, net of cash acquired:

— cash consideration	186,110
— cash paid for direct costs relating to the acquisition	11,075
— cash and cash equivalents in subsidiary acquired	(33,472)
Cash outflow on acquisition	163,713

Turnover and profit for the period from 29 June 2007 (the acquisition date) to 31 December 2007 (the balance sheet date) is RMB231,995,000 and RMB53,397,000, respectively.

36. BUSINESS COMBINATIONS — GROUP *(Continued)*

(b) Acquisition of Shenzhen Lijun

On 30 September 2007, the Company acquired 68% of the share capital of Shenzhen Lijun Pharmaceutical Co., Ltd. ("Shenzhen Lijun"). Shenzhen Lijun is engaged in distribution of pharmaceutical products.

Details of net assets acquired are as follows:

	RMB'000
Purchase consideration:	
— cash paid	1,768
Fair value of net identifiable assets acquired	(1,768)
Difference between investment cost and share of net assets	—

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount *RMB'000*	**Fair value** *RMB'000*
Property, plant and equipment	64	64
Intangible assets	253	253
Inventories	350	350
Trade and bills receivables	1,179	1,179
Prepayments, deposits and other receivables	283	283
Cash and cash equivalents	1,871	1,871
Trade and bills payables	(411)	(411)
Accruals and other payables	(989)	(989)
	2,600	2,600
Less: Minority interests		(832)
Net identifiable assets acquired		1,768
Outflow of cash to acquire business, net of cash acquired:		
— cash consideration		1,768
— cash and cash equivalents in subsidiary acquired		(1,871)
Cash inflow on acquisition		(103)

Turnover and profit for the period from 30 September 2007 (the acquisition date) to 31 December 2007 (the balance sheet date) is RMB1,385,000 and RMB90,000, respectively.

37. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) During the year, the directors are of the view that the following companies are related parties of the Group:

Name	**Relationship**
Rejoy Group	An entity significantly influenced by key management personnel
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Controlled by the same shareholders of the shareholder of the Group
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")	Subsidiary of Rejoy Technology
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	An entity significantly influenced by key management personnel
CMP Group Limited. ("CMP Group")	Mr. Qu Jiguang, a Director of the Company, is a Director and the controlling shareholder of CMP Group
Mr. Gao Zhihong ("Gao Zhihong")	A Director of Modern Chinese Medicine
Global Printing Co., Ltd. ("Global printing")	Controlled by the same ultimate parent company of Rejoy Group

37. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP *(Continued)*

(b) Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	Year ended 31 December	
		2007	2006
		RMB'000	*RMB'000*
Purchasing of raw materials and packaging materials	Global Printing	**—**	6,636
	Rejoy Packaging	**1,280**	—
	Rejoy Baichuan	**10**	—
		1,290	6,636
Sales of finished goods	Rejoy Baichuan	**18,224**	19,515
	Rejoy Medicine	**—**	10,154
	Xi'an Pharmacy Factory	**245**	—
	Rejoy Medicine	**8,105**	—
		26,574	29,699
Provision of utilities from	Xi'an Pharmacy Factory	**43,204**	54,032
Sharing of administrative costs from	Xi'an Pharmacy Factory	**13,000**	13,000
Lease of land use rights from	Rejoy Group	**5,461**	5,461
Lease of office premises to	Rejoy Group	**200**	200
	Rejoy Technology	**59**	—
		259	200
Acquisition of a subsidiary	CMP Group	**707,375**	—
Purchase of minority interests	Gao Zhihong	**2,328**	—
Investment in the form of land use rights *(Note (i))*	Rejoy Real Estate	**3,900**	—

Note (i) During the year, the Group invested for 19.5% interests in Rejoy Real Estate. The investment was contributed in the form of certain of the Group's land use right with an amount of RMB3,900,000.

37. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP *(Continued)*

(c) Key management compensation

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Salaries and other benefits	**8,098**	4,759

(d) The Group had the following significant balances with related parties:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Amounts due from related parties included in trade receivables		
— Rejoy Baichuan	**12,931**	8,809
— Rejoy Medicine	**8,549**	8,268
	21,480	17,077

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Amounts due from related parties included in prepayments, deposits and other receivables		
— Xi'an Pharmacy Factory	**—**	3,600
— Rejoy Group	**200**	—
— Rejoy Technology	**59**	—
— Rejoy Packaging	**195**	—
	454	3,600

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Amounts due to related parties included in trade payables		
— Global Printing	**—**	1,528
— Rejoy Baichuan	**6**	—
— Rejoy Packaging	**399**	—
	405	1,528

37. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP *(Continued)*

(d) The Group had the following significant balances with related parties: *(Continued)*

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Amounts due to related parties included in accruals and other payables		
— Rejoy Group	**791**	6,350
Amount due to minority shareholder of a subsidiary	**—**	11,742

The related party balances are all unsecured, interest-free and have no pre-determined terms of repayment.

38. COMMITMENTS — GROUP

(a) Capital commitments

Capital expenditure at the balance sheet dates but not yet incurred is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
— Contracted but not provided for	**24,881**	14,824

(b) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of office premises in the PRC and Hong Kong under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Not later than one year	**5,770**	6,760
Later than one year and not later than five years	**12,159**	1,091
More than five years	**7,213**	—
	25,142	7,851

39. EVENTS AFTER THE BALANCE SHEET DATE

On 21 April 2008, the Board of Directors of Xi'an Lijun approved the announcement to cease the policy of early retirement allowance plan *(Note 23)*. These would become effective since 1 May 2008.

FINANCIAL SUMMARY
(All amounts in RMB)

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
	(Audited)	(Audited)	(Audited)	(Audited)	**(Audited)**
RESULTS					
Turnover	896,307	903,006	884,709	860,641	**1,105,846**
Profit before income tax	102,790	131,392	131,668	92,401	**128,111**
Income tax expense	(15,056)	(22,331)	(15,122)	966	**(12,075)**
Profit for the year	87,734	109,061	116,546	93,367	**116,036**
Attribute to:					
Equity holders of the Company	70,333	88,632	93,311	84,575	**116,007**
Minority interest	17,401	20,429	23,235	8,792	**29**

	As at 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES					
Total assets	661,711	786,614	937,618	914,908	**1,940,969**
Total liabilities	(335,658)	(441,273)	(343,246)	(412,591)	**(820,968)**
Minority interest	(83,548)	(86,022)	(93,647)	—	**749**
Shareholder's equity	242,505	259,319	500,725	502,317	**1,120,001**