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

2008

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Liu Zhiyong

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Sze Wing Kin, Pierre

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. Wang Xianjun
Ms. Sun Xinglai

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (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) Ltd.
Industrial and Commercial Bank of China
China Construction Bank
China Construction Bank (Asia)
China Merchants Bank
China Minsheng Banking Corp., Ltd.
China CITIC Bank
Hang Seng Bank
CITIC Ka Wah Bank
Banks of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Shijiazhuang City Commercial Bank

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

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 2008.

1. RESULTS AND DIVIDEND PAYMENT

During the year, there was a fairly significant growth of the Group's revenue. The Group's revenue amounted to HK$1,591,028,000, representing an increase of 39.6% as compared to last year. Due to various factors including price increase in raw materials and higher marketing costs for new products in the first half of the year, the operating profit of the Group decreased by 17.9%, amounted to HK$132,404,000. Profit attributable to equity holders of the Company decreased by 14.6% to HK$102,106,000 as compared to last year.

The Board recommended the payment of a final dividend of HK$0.01 per share which, together with the interim dividend of HK$0.006 per share, would result in total dividends of HK$0.016 per share for the year.

2. BUSINESS REVIEW

During the year, the macro economic environment of China was complex and changing quickly. In the first half of the year, the prices of energy fuel, raw materials and supplementary materials had been increasing sharply due to inflation. In the second half of the year, the economy was seriously stricken by the global financial crisis. To address the challenging macro economic situation and market change, the Group took advantage of the State's medical system reform, the growth in the size of the domestic pharmaceutical market and the recovery of the industry, and therefore achieved significant increase in the revenue for the year.

(1) Growth in sales of core products

Firstly, there was a stable sales of antibiotics products. By strengthening our business in the prevailing market and tapping into new market segments, the Company endeavoured to maintain its leading position in the macrolide antibiotics market. During the year, the sales of products of the Lijunsha series amounted to HK$427,838,000, in which the sales of Lijunsha granules targeting at the pediatric market significantly increased by 63.7% as compared to last year. Paiqi and Limaixian, which are third generation macrolide antibiotics, accumulated a sales of over HK$100,000,000.

Secondly, the business of intravenous infusion solutions attained a rapid growth. During the year, the revenue from the business of intravenous infusion solutions amounted to HK$573,583,000, representing an increase of 32.0% as compared to last year. With our further optimized product portfolio, the Group has successfully expanded and extended its market share. While retaining its production and marketing prominence in basic and therapeutic intravenous infusion products, the Group has achieved an initial scale of a new product series including Amino Acid Infusions, Rinsing Physiological Saline Solutions and Pediatric Infusion Solutions and so on. Through professional academic marketing programmes, the Group kept expanding its soft-package infusion products market share amongst the country's large and medium-sized hospitals, and thus further consolidated its medium-to-high end market positioning. The sales volumes of PP Plastic Bottle and Non-PVC Soft Bag solutions increased by 37.5% and 78.4% respectively as compared to last year. The quality, production and sales of intravenous infusion solutions of the Group maintained at a leading position in the PRC.

2. **BUSINESS REVIEW** *(Continued)*

(1) Growth in sales of core products *(Continued)*

Thirdly, as a result of the State's efforts to gradually establish new rural medical systems and the improvement of medical systems in urban communities, the sales of large-scale branded preparations and large-scale basic medicines saw relatively fast growth. The sales of Dobesilate and Lixiding increased by 27.4% and 38.1% respectively as compared to last year, while that of Limaixian represented an increase of 14.6% over last year. The sales of Cephalosporin Antibiotics increased by 35.8% on a year-on-year basis, and the sales of bulk pharmaceuticals increased by 124.4% as compared to that of last year. Both the sale of general medicines and collection of payments increased on a year-on-year basis.

Fourthly, the Group accelerated its launch of OTC and health care product lines. The Group completed the process of contacting distributors for the product of Lijungai, which enjoyed a sound market image as "a calcium product with dual technology of nano chelate – for its absorption-friendly nature". The sales of OTC pharmaceutical products and healthcare products of the Group increased by 124.4% as compared to last year.

(2) Acceleration of the development and industrialized production of new products

During the year, the Group obtained one national new drug certificate, one national invention patent and eleven new production approvals. The production permit and the national new drug certificate in regard to Type 3.1 new influenza drug, Paracetamol, Loratadine and Pseudoephedrine Sulfate Sustained Release Tablet "Haogan", were granted during the year. As the best anti-influenza drug in the US market, the market prospect of the product is perceived to be promising. This in turn paves the way for our expansion into the market of influenza preparations. A national invention patent in respect of the formulation of Erythromycin was attained as well, and nine new products were introduced to the market. Besides, three innovative medicines for general diseases were included in the new product development scheme of the Shaanxi province upon completion of part of their Pharmacodynamics and Pharmacokinetics research. These products are Type 1.1 new drug for curing Alzheimer's disease, Type 1.5 new drug for gastric mucosal protection, Type 1.5 new anti-influenza drug. Moreover, a number of intravenous infusion solutions and oral preparations with promising market prospects were selected and launched onto the market. We are pleased to see both product innovation and industrialized production have made remarkable achievements. During the year, project funding from the Government amounted to over HK$4 million.

We collaborated with the Xi'an Fourth Military Medical University to establish the "Shaanxi Provincial Innovative Pharmaceutical Engineering Centre". We also established an open research and development centre for new medicines in Shijiazhuang. The establishment of these centres laid a sound foundation for our development of new products in the future.

3. DEVELOPMENT OUTLOOK

Looking forward to 2009, the ever-spreading of the global financial crisis has caused the macro-economic context to be more acute and the competition of the pharmaceutical market in mainland China to be intensified. Nevertheless, realizing the objective of national health insurance by the introduction of the State's new medical reform will expand the market in a sense of up to hundreds of billions of dollars and create significant development opportunities for the pharmaceutical industry. The Group will leverage on every chance to strengthen our development by focusing on the response to the new medical reform, keeping our eye on any ultimate possible market changes brought about by the implementation of the basic medicines system and the new medical reform, consolidating various characteristics of the Group's products as well as adjusting the strategies for both product development and marketing in time.

(1) To maintain the leading role of Macrolides antibiotics

In 2009, the Group will enhance its promotion and sales efforts on Lijunsha among sub-dealers and end users mainly at region or county level, while at the same time reinforcing the segment sales of Lijunsha products in form of tablets, capsules and granules. As regards Lijunsha tablets, new opportunities may arise this year after the price adjustment in the market last year. The fast growing momentum of Lijunsha granules will remain strong as well due to our new strategy of focusing on its specifically-designed-for-children version. Moreover, thanks to its capsule's advantage as an exclusive drug form in the State and its high bioavailability and absorbance, coupled with development of new selling points, we expect to see fast growth in the sales of Lijunsha capsules. During the year, we will enhance the sales and promotion of lyophilized powder for injection, capsules, dispersible tablets under the Paiqi series. New models of Azithromycin Suspension will also be introduced. It is hoped that the business scale of our Paiqi series will exceed HK$100 million in the year. Besides, the Cephalosporin series is likely to maintain its fast growing momentum as shown in 2008 to further expand its scope and gradually develops into another hundred million dollars worth brand.

(2) Fast growth of intravenous infusion segment

The Group's new Plastic Bottle production line in Shijiazhuang passed the country's GMP authentication and managed to achieve its goals in the second half year. We will further expand its market shares in regard to therapeutic and plastic soft-packed infusions and oral preparations, while sustaining its fast growing momentum of intravenous infusions. Efforts will also be paid on developing and maintaining our market share in key hospitals and businesses and strengthening strategic partnerships. The Group will continue to strengthen its marketing efforts on new products such as Fluconazole Infusions (Tablets), Dextran Infusions, Amino Acid Infusions, Ozagrel and Sodium Chloride Injections and so on, so as to form a new driving force. On the other hand, international intravenous infusions market is yet to develop by way of more overseas registrations, and widened export channels to keep a healthy momentum of foreign trade.

3. DEVELOPMENT OUTLOOK *(Continued)*

(3) To boost the sales of general medicines and privileged brands

China will further expand the coverage of its basic medical protection after the issue of new medical reform policies to enhance basic medical protection standards across the country. Large-scale general medicine companies that enjoy the synergy of both scale and branding effect are expected to benefit the most from this trend. The Group have more than 400 production permits for various types of preparations. In 2009, the Group will speed up its selection of right products for the development of simpler, convenient, standardized and lower price brands to cater for the needs of urban communities and new rural markets. We will use every endeavor to introduce our products among end-users in the grassroots market with the aim to increase our market share. Moreover, market development and promotional efforts will also be further enhanced for fast growing products like microcirculation improvement agent "Dobesilate", cardiovascular and cerebrovascular medicine "Lixiding", antiviral drug "Arbidol" and anti-asthmatic drug "Ambroxol Hydrochloride Orally Disintegrating Tablets" to strive for another breakthrough during the year.

(4) To speed up the launches and enhance the sales of OTC and healthcare products

Benefiting from last year's promotion and brand-building efforts on Lijungai products, our focus for the year is on increasing market share, boosting sales, as well as raising the "distribution ratio" of drugstores, the "recommendation ratio" of salesmen and the "purchase ratio" of consumers, with the aim to boost the sales of products. By working with professional planning companies to formulate business strategies and explore new distribution channels for the Group while boosting and facilitating promotion, we are committed to boost the sales volume of Shengtai oral solutions and Zijin soft capsules. Moreover, with respect to Type 3.1 new influenza drug, Paracetamol, Loratadine and Pseudoephedrine Sulfate Sustained Release Tablet "Haogan", the production permit of which was granted last year, innovative strategy will be adopted for the business planning in order to promote it as a famous brand. These several products are expected to bring new growing points to the Group's sales.

In general, the Company is optimistic about our business growth in 2009. 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, 24 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the year ended 31 December 2008, the revenue of the Group amounted to approximately HK$1,591,028,000, representing an increase of 39.6% as compared with HK$1,139,431,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2008 is set out as follows:

	2008		2007		**Change**
	HK$000	**%**	*HK$000*	%	**%**
Antibiotics					
Lijunsha	**427,838**	**26.9**	429,560	37.7	**(0.4)**
Paiqi	**90,426**	**5.7**	89,909	7.9	**0.6**
Others Antibiotics Finished Products	**151,306**	**9.5**	141,671	12.4	**6.8**
Sub-total	**669,570**	**42.1**	661,140	58.0	**1.3**
Intravenous Infusion Solution	**573,583**	**36.1**	240,736	21.1	**138.3**
Non-antibiotics Finished Products	**236,692**	**14.9**	185,957	16.3	**27.3**
Sales of bulk pharmaceuticals	**109,020**	**6.8**	48,574	4.3	**124.4**
Others	**2,163**	**0.1**	3,024	0.3	**(28.5)**
Total	**1,591,028**	**100**	1,139,431	100.0	**39.6**

ANTIBIOTICS

In 2008, sales of Lijunsha decreased by 0.4% to HK$427,838,000 (2007: HK$429,560,000), sales of Paiqi increased by 0.6% to HK$90,426,000 (2007: HK$89,909,000) and sales of others antibiotics finished products increased by 6.8% to HK$151,306,000 (2007: HK$141,671,000). Overall sales of antibiotics finished products increased by 1.3% to HK$669,570,000 (2007: HK$661,140,000).

Following the acquisition of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma") in June 2007 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 full year's sales figures of intravenous infusion solution and other products from Shijiazhuang No.4 Pharma, sales proportion of antibiotics products to total Group's sales decreased from 58.0% in 2007 to 42.1% in 2008 and sales proportion of Lijunsha accounted for only 26.9% of the total Group's sales in 2008, comparing to 37.7% in 2007.

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 HK$240,736,000, in which sales of intravenous infusion solution products accounted for HK$217,498,000.

INTRAVENOUS INFUSION SOLUTION *(Continued)*

Revenue of Shijiazhuang No. 4 Pharma for the year ended 31 December 2008 was HK$573,583,000 (2007: HK$434,397,000), representing a growth of 32.0% on a year-to-year basis. Among which, the sales of Non-PVC Soft Bag infusion solution was HK$101,437,000, contributing to 17.7% of the revenue, which was increased by 81.3% as compared with that of 2007; the sales of PP Plastic Bottle infusion solution was HK$220,979,000, contributing to 38.5% of the revenue, which was increased by 37.2% as compared with that of 2007; sales of Glasses Bottle infusion solution was HK$184,439,000, contributing to 32.2% of the revenue, which was increased by 8.3% as compared with that of 2007.

During the year, the newly constructed production lines of PP Plastic Bottle infusion solution and Non-PVC Soft Bag infusion solution passed the GMP verification successfully and had duly put into production. At the end of 2008, the annual production capacity of PP Plastic Bottle infusion solution reached 150,000,000 bottles, which was increased by 50% as compared with that of 2007; while the annual production capacity of Non-PVC Soft Bag infusion solution reached 100,000,000 bags, which marked a 150% increase as compared with that of 2007.

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 infusion solution and Non-PVC Soft Bag infusion solution 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 FINISHED 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 27.3% to HK$236,692,000 (2007: HK$185,957,000).

SALES OF BULK PHARMACEUTICALS

Sales of bulk pharmaceuticals amounted to HK$109,020,000 in 2008 (2007: HK$48,574,000), representing an increase of 124.4%.

COST OF GOODS SOLD

With the consolidation of Shijiazhuang No. 4 Pharma's full year's cost of sales and the significant increase in labour cost, the Group's cost of goods sold increased by 53.9% from HK$560,936,000 for the year ended 31 December 2007 to HK$863,496,000 for the year ended 31 December 2008. The cost of direct materials, direct labour and other costs represented approximately 74.3%, 6.7% and 19.0% of the total cost of goods sold respectively for the year ended 31 December 2008 while their comparative percentage for 2007 were 75.6%, 5.2% and 19.2% respectively.

GROSS PROFIT MARGIN

Gross profit of the Group in 2008 amounted to HK$727,532,000 (2007: HK$578,495,000), representing a gross profit margin of 45.7%, which was decreased by 5.1 percentage point comparing to that of last year (50.8%). The decrease in gross profit margin was mainly attributable to increase in cost of raw materials and labour during the year and change of product profolio of the Group.

SELLING AND MARKETING COSTS

For the year ended 31 December 2008, selling and marketing costs amounted to approximately HK$389,091,000 (2007: HK$290,754,000), which mainly consisted of advertising expenses of approximately HK$70,589,000 (2007: HK$58,245,000), sales commission of approximately HK$151,162,000 (2007: HK$130,528,000), salaries expenses of sales and marketing staff of approximately HK$55,419,000 (2007: HK$39,881,000), office and rental expense of approximately HK$11,173,000 (2007: HK$4,938,000) and transportation cost of approximately HK$55,328,000 (2007: HK$27,202,000).

SELLING AND MARKETING COSTS *(Continued)*

The increase of 33.8% in selling and marketing costs in 2008 as compared with that of 2007 was mainly attributable to the consolidation of full year's selling and marketing costs of Shijiazhuang No. 4 Pharma after last year's acquisition and the increase of transportation cost, as well as the Group's boost up in sales commission and advertising expenses to promote the brand name of the Group and its new products.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to approximately HK$221,817,000 (2007: HK$150,778,000) for the year ended 31 December 2008 which mainly comprised salaries expenses for the administrative staff of approximately HK$66,943,000 (2007: 59,724,000), the share option expenses of approximately HK$15,346,000 (2007: Nil), depreciation and amortisation of approximately HK$40,675,000 (2007: HK$19,819,000) and office and rental expenses of approximately HK$14,676,000 (2007: HK$16,965,000).

The increase of 47.1% in general and administrative expenses in 2008 as compared with that of 2007 was mainly attributable to the consolidation of full year's general and administrative expenses of Shijiazhuang No. 4 Pharma after last year's acquisition and an expense of HK$15,346,000 for the grant of share options to the directors and senior management during the year.

OPERATING PROFIT

Due to the increase in the Group's selling and marketing costs and general and administrative expenses, the Group's operating profit in 2008 decreased by 17.9%, amounted to HK$132,404,000 (2007: HK$161,317,000) with its operating profit margin (defined as operating profit divided by total sales) decreased from 14.2% to 8.3%.

FINANCE COSTS

The finance costs for the year has increased to HK$41,222,000 in 2008 (2007: HK$33,186,000). During the year, interest expense on bank borrowings amounted to HK$27,344,000 (2007: HK$18,895,000), finance costs on discount of bills receivables amounted to HK$6,420,000 (2007: HK$5,824,000) and finance costs for convertible bonds amounted to HK$13,442,000 (2007: HK$8,526,000).

The increase of HK$8,036,000 in finance costs in 2008 was due to the increase in bank loans to finance the acquisition of property, plant and equipment and as working capital and issue of convertible bonds as at 30 May 2007 to finance the acquisition of interest in subsidiaries.

INCOME TAX EXPENSE

Both Xi'an Lijun Pharmaceutical Co., Ltd ("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 2008, since the over-provision of enterprise income tax of HK$16,090,000 from 2000 to 2004 has been written back, the overall income tax credit amounted HK$8,914,000 (2007: income tax expense of HK$12,442,000).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS FOR THE YEAR

Profit attributable to equity holders of the Company for the year decreased by 14.6% to HK$102,106,000 (2007: HK$119,530,000) while net profit margin (profit attributable to equity holders of the Company for the year divided by total sales) decreased to 6.4% from 10.5% in 2007.

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 cash flow is insufficient to meet the capital requirements.

As at 31 December 2008, the cash and cash equivalents aggregated to HK$219,453,000 (2007: HK$98,983,000), comprising HK$40,510,000 (2007: HK$13,698,000) of cash and cash equivalents denominated in Hong Kong dollars, HK$176,030,000 (2007: HK$83,989,000) in RMB and HK$2,913,000 (2007: HK$1,296,000) in other currencies.

As at 31 December 2008, the Group has pledged bank deposits amounting to HK$16,232,000 (2007: HK$42,976,000) as guarantee of the bank borrowings, payables for property, plant and equipment and bills payables.

The carrying amounts of the borrowings (including convertible bonds) amounting to HK$723,112,000 (2007: HK$523,994,000) as at 31 December 2008, comprising HK$159,500,000 (2007: HK$133,000,000) of borrowings denominated in Hong Kong dollars and HK$563,612,000 (2007: HK$390,994,000) in RMB.

Gearing ratio (defined as bank borrowings and convertible bonds less pledged bank deposits and cash and cash equivalents divided by total equity less minority interests) increased from 32.0% as at 31 December 2007 to 35.6% as at 31 December 2008.

Current ratio (defined as current assets divided by current liabilities) decreased from 1.25 as at 31 December 2007 to 1.04 as at 31 December 2008.

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 2008, the net book amount of the Group's land use right of HK$55,881,000 (2007: HK$57,927,000), the net book amount of the Group's buildings, plant and machineries of HK$245,190,000 (2007: HK$204,213,000) and bank deposits of HK$16,232,000 (2007: HK$42,976,000) were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payables.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any significant contingent liabilities.

SHAANXI LIJUN MODERN CHINESE MEDICINE CO., LTD.

In June 2008, Xi'an Lijun had sold its entire interests of 80.675% in Shaanxi Lijun Modern Chinese Medicine Co., Ltd.. Details are set out in note 35 to the financial statements.

EXCHANGE RATE

As at 2008 and 2007, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2007	1.00467
31 December 2007	0.93638
31 December 2008	0.88189

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Wu Qin（吳秦）, aged 56, 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 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. Mr. Wu is the general manager of Xi'an Lijun. Mr. Wu has over 30 years of experience in the pharmaceutical industry. He is particularly experienced in the business planning, marketing and enterprise management for pharmaceutical brands. In addition to setting up a number of unique management models, he has also achieved great success in establishing the "Lijunsha" brand, which is one of the prominent "Well-known Trademark in China" in the pharmaceutical industry in the PRC. Mr. Wu graduated from the Open University of Hong Kong with a degree of Master in Business Administration in 2002. He was a deputy to the 10th Standing Committee of the National People's Congress, and was awarded the National Labour Model Award（全國勞動模範）, National May First Labour Medal（全國五一勞動獎章）, International Chinese Commercial Leaders Award（世界華商領袖功勛獎）, Outstanding Chinese Entrepreneurs Award（中國傑出企業領袖）and 100 Most Innovative Chinese Characters Award（中國改革100新銳人物）. He was also 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 53, 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 Shijiazhuang 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 Pharmaceutical Company Limited, which held 28.19% 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 of Hong Kong Limited (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（全國工商聯執委）, Vice-Chairman of China Pharmaceutical Industry Association（中國化學製藥協會副會長）, Vice-Chairman of Hebei Provincial Federation of Industry and Commerce（河北省工商聯副主席）, Vice-Chairman of Hebei Provincial Association of Enterprise（河北省企業聯合會副會長）, Vice-Chairman of Hebei Pharmaceutical Industry Association（河北省醫藥行業協會副會長）.

Mr. Huang Chao（黃朝）, aged 53, 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. 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.

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Xie Yunfeng (謝雲峰), aged 54, an executive Director and is responsible for supplies 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 nearly 30 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 52, 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 has been the Chairman of Rejoy Technology since November 2008. Ms. Sun graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002.

Mr. Wang Xianjun (王憲軍), aged 46, an executive director. 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 Shijiazhuang 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, from May 1994 to 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 50, 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 51, 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 48, 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)*

Executive directors *(Continued)*

Mr. Bao Leyuan（包樂源）, aged 51, an executive Director and is currently a director of Xi'an Rejoy Group Co., Ltd., Xi'an Lijun Fangyuan Pharmaceutical Co., Ltd. and Shaanxi Lijun Modern Traditional Chinese Medicine Co., Ltd.. Mr. Bao joined Xi'an Lijun Pharmaceutical Co., Ltd., a subsidiary of the Company, as a vice chief accountant since 1999, responsible for the asset management functions of the Group. Mr. Bao has been the Chairman of the Supervisory Board of Rejoy Technology since November 2008. Mr. Bao graduated from Xi'an Radio and Television University in 1986. He is also an accountant in China and has ample experience in financial management.

Non-executive director

Mr. Liu Zhiyong（劉志勇）, aged 39, 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 46, an 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 25 years 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 43, 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.

DIRECTORS *(Continued)*

Independent non-executive directors *(Continued)*

Mr. Chow Kwok Wai (周國偉), aged 42, was appointed as an independent non-executive Director of the Company on 16 October 2005. Mr. Chow has worked in Price Waterhouse, which is now known as PricewaterhouseCoopers and accumulated valuable audit experience there. Mr. Chow received his Bachelor of Social Sciences Degree from the University of Hong Kong in 1990. Mr. Chow is a Fellow Member of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chow has over 15 years of experience in accounting, financial management and corporate finance. Mr. Chow is currently an executive director and a Deputy General Manager of Silver Grant International Industries Limited (Stock Code: 171) whose shares are listed on the Stock Exchange. He is also a non-executive director of Cinda International Holdings Limited (Stock Code: 111) whose shares are listed on the Stock Exchange.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Sze Wing Kin, Pierre (施永健), aged 32, is the qualified accountant, company secretary and chief financial officer of the Company. Mr. Sze graduated from The Hong Kong University of Science and Technology with Bachelor of Business Administration (Hons) in Professional Accounting in 1998 and has ten years of working experience in auditing, accounting and taxation in Hong Kong and the mainland of The People's Republic of China. Prior to joining the Company, Mr. Sze has worked for several international audit firms. Mr. Sze is a Fellow Member of the Association of Chartered Certified Accountants and is an Associate Member of the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Board present their report together with the audited financial statements for the year ended 31 December 2008.

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 40.

DIVIDEND

An interim dividend of HK$0.006 per share was declared on 16 September 2008 and paid on 3 November 2008.

The Directors recommend the payment of a final dividend of HK$0.01 per share which, together with the interim dividend of HK$0.006 per share, will result in total dividends of HK$0.016 (2007: HK$0.016) per share for the year ended 31 December 2008. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 5 June 2009 and payable on 26 June 2009 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 18 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 17 to the financial statements.

DISTRIBUTABLE RESERVES

Reserves of the Company as at 31 December 2008 available for distribution amounted to HK$53,040,000 (2007: HK$35,977,000). The Company's share premium account in the amount of HK$737,532,000 (2007: HK$688,092,000) 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 for the allotment and issuance of an aggregate of 7,351,016 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 2008.

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Share Option 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 Share Option Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option 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 Share Option 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 Share Option 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 Share Option Scheme. The total number of shares issued and to be issued upon exercise of all options granted under the Share Option 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.

As at 7 August 2008, the Company granted 100,000,000 share options to directors and senior management of the Group, representing about 4.93% of the issued share capital as at the date immediately before the options were granted. The exercise price was HK$0.7. As at 31 December 2008, all of the share options granted remained outstanding. Details are set out in note 17 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Wu Qin	
Mr. Qu Jiguang	
Mr. Wu Zhihong	(retired on 30 May 2008)
Mr. Huang Chao	
Mr. Xie Yunfeng	
Ms. Sun Xinglai	
Mr. Wang Xianjun	
Mr. Duan Wei	
Mr. Wang Zhizhong	
Ms. Zhang Guifu	
Mr. Bao Leyuan	(appointed on 1 September 2008)

Non-executive Directors

Mr. Liu Zhiyong

Independent Non-executive Directors

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

Pursuant to Article 86 of the Company's articles of association and the Listing Rules, all directors appointed as an addition to the board shall be subject to re-election by the shareholders at the first general meeting after their appointment. Accordingly Mr. Bao Leyuan will offer himself for re-election as executive Director at the forthcoming annual general meeting.

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. Xie Yunfeng, Ms. Sun Xinglai, Mr. Wang Xianjun and Mr. Liu Zhiyong will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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.

During the year, the annual remuneration of Mr. Wu Qin increased from HK$2,800,000 to HK$3,000,000 with effect from 16 September 2008, and the annual remuneration of Mr. Xie Yunfeng increased from HK$500,000 to HK$600,000 also with effect from 16 September 2008. The increase in the remuneration of Mr. Wu and Mr. Xie was reviewed and approved by the Remuneration Committee.

As at 31 December 2008, 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 2008 was HK$223,364,000 (2007: HK$150,138,000). Details of the remuneration of the Directors for the year ended 31 December 2008 are set out in note 31 to the financial statements.

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 HK$15,327,000 for the year ended 31 December 2008 (2007: HK$19,060,000).

RETIREMENT BENEFIT PLANS *(Continued)*

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 2008, 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") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Beneficial owner *(Note 1)*	22,420,000	1.11%
Mr. Qu Jiguang	Interest in a controlled corporation *(Note 2)*	571,500,000	28.19%
	Beneficial owner *(Note 3)*	7,000,000	0.35%
Mr. Huang Chao	Beneficial owner *(Note 3)*	5,000,000	0.25%
Mr. Xie Yunfeng	Beneficial owner *(Note 3)*	7,000,000	0.35%
Mr. Wang Xianjun	Beneficial owner *(Note 3)*	6,000,000	0.30%
Mr. Duan Wei	Beneficial owner *(Note 3)*	7,000,000	0.35%

Notes:

1. Among the 22,420,000 shares, 7,000,000 shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Wu Qin on 7 August 2008 under the Share Option Scheme.

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

3. These shares represent the underlying interests in shares of the Company pursuant to options granted to the respective Directors on 7 August 2008 under the Share Option Scheme.

Save as disclosed above, as at 31 December 2008, 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 section 352 of the SFO, to be entered in the register referred to therein, or (b) 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 2008, 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 of the Company

Name of Shareholder	Capacity	Number of shares	% of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	634,345,000	31.29%
CPCL *(Note 2)*	Beneficial owner	571,500,000	28.19%
Mr. Qu Jiguang	Interest of controlled corporation *(Note 2)*	571,500,000	28.19%
	Beneficial owner *(Note 3)*	7,000,000	0.35%
Victory Rainbow Investment Limited *(Note 4)*	Beneficial owner	291,500,000	14.38%
Grand Ocean Shipping Company Ltd. *(Note 4)*	Interest of controlled corporation	291,500,000	14.38%
Ms. Chen Lin-Dong *(Note 4)*	Interest of controlled corporation	291,500,000	14.38%
Mr. Xu Ming *(Note 4)*	Interest of controlled corporation	291,500,000	14.38%

Notes:

(1) Prime United Industries Limited is held as to about 2.43% by Mr. Wu Qin, 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. Huang Chao, Mr. Xie Yunfeng and Ms. Han Yamei who jointly hold such shares on trust for 4,536 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Huang Chao and Mr. Xie Yunfeng, the executive Directors, are also directors of 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 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

(3) These shares represent the underlying interest on shares of the Company pursuant to options granted to Mr. Qu Jiguang on 7 August 2008 under the Share Option Scheme.

(4) 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.

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 36 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.

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 of the Company and is accordingly a connected person of the Company.

For the year ended 31 December 2008, the total sales of Group products to the Rejoy Technology Group was RMB16,569,000 (2007: RMB18,224,000), which did not exceed the annual cap of RMB21,500,000 (2007: RMB21,500,000) prescribed for the year ended 31 December 2008 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 dated 20 December 2007, 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 ended 31 December 2008, the total purchase of raw materials and packaging materials from the Rejoy Technology Group was RMB3,398,000 (2007: RMB1,290,000), which did not exceed the estimated annual cap of RMB5,000,000 prescribed for the year ended 31 December 2008 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 respective annual caps disclosed in previous announcements.

In accordance with paragraph 14A.38 of the Listing Rules, 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 the latest practicable date prior to the issue of this annual report, being 24 April 2009, and at all times during the year ended 31 December 2008.

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 Appendix 10 to the 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 2008.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will 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 5 June 2009 at Office 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 2 June 2009 (Tuesday) to 5 June 2009 (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 1 June 2009 (Monday).

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 24 April 2009

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 to the Listing Rules. During the year, the Company has complied with the applicable Code Provisions set out in the CG Code.

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.

Five regular board meetings were held for the year ended 31 December 2008 and the attendance was as follows:

		Meetings attended/held	Attendance
Wu Qin		5/5	100%
Qu Jiguang		5/5	100%
Wu Zhihong	(retired on 30 May 2008)	1/5	20%
Huang Chao		5/5	100%
Xie Yunfeng		5/5	100%
Sun Xinglai		5/5	100%
Wang Xianjun		5/5	100%
Duan Wei		5/5	100%
Wang Zhizhong		5/5	100%
Zhang Guifu		5/5	100%
Bao Leyuan	(appointed on 1 September 2008)	2/5	40%
Liu Zhiyong		5/5	100%
Wang Yibing		5/5	100%
Leung Chong Shun		5/5	100%
Chow Kwok Wai		5/5	100%

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.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

A.1 Board of Directors *(Continued)*

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.

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, namely Mr. Wu Qin, Mr. Qu Jiguang, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai, Mr. Wang Xianjun, Mr. Duan Wei, Mr. Wang Zhizhong, Ms. Zhang Guifu and Mr. Bao Leyuan, 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 11 to 14 under the section headed "Biographical Details 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.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

A.4 Appointments, re-election and removal

All Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

Also, 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.

Pursuant to Articles 86 and 87 of the Articles of Association, Mr. Xie Yunfeng (an executive Director), Ms. Sun Xinglai (an executive Director), Mr. Wang Xianjun (an executive Director), Mr. Bao Leyuan (an executive Director) and Mr. Liu Zhiyong (a non-executive director) will retire from office by rotation in the forthcoming annual general meeting and 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 2008, the Board had nominated and appointed Mr. Bao Leyuan as executive Director to the Board, with annual remuneration of HK$300,000.

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 Companies 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. The Directors have confirmed that there were not any noncompliance 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 2008.

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.

Four meetings had been held for the Remuneration Committee during the year ended 31 December 2008 and the attendance was as follows:

	Meetings attended/held	**Attendance**
Leung Chong Shun	4/4	100%
Wang Yibing	4/4	100%
Chow Kwok Wai	4/4	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 2008 regarding the remuneration of Directors:

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

(ii) review of 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 independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai and HK$60,000 for Mr. Liu Zhiyong, 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 2008 are set out in the page 102 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.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.1 Accountability and audit *(Continued)*

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 2008, 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.

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 page 35-36 of this annual report under the section headed "Independent Auditor's Report".

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 Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

C.2 Internal controls

The Board 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.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.3 Audit Committee *(Continued)*

Two meetings had been convened by the Audit Committee during the year ended 31 December 2008 and the attendance was as follows:

	Meetings attended/held	Attendance
Chow Kwok Wai	2/2	100%
Wang Yibing	2/2	100%
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.

Members of the Audit Committee of the Company does not comprise any former partner of the Company's existing audit firm.

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;

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.3 Audit Committee *(Continued)*

(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 Stock Exchange Listing Rules and other legal requirements in relation to financial reporting;

(e) In regard to (d) above:

(i) members of the committee must liaise with the issuer's board of directors and senior management 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 staff responsible for accounting and financial reporting function, 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 including the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget;

(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;

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.3 Audit Committee *(Continued)*

(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 2008, total fees of about RMB3,000,000 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 2009.

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.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

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 their 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 such that shareholders are familiar with the detailed procedures for conducting poll.

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.

F. Directors' and Officers' Liability Insurance

The Company has arranged appropriate directors' and officers' liability insurance to indemnify the Directors and senior staff of the Group for their potential liabilities incurred by them in discharging their duties. The Company reviews the insurance coverage for the Directors and the Group's senior staff on an annual basis.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

Independent Auditor's Report
To the shareholders of
Lijun International Pharmaceutical (Holding) Co., Ltd.
(incorporated in 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 37 to 111, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 judgment, 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 2008 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, 24 April 2009

CONSOLIDATED BALANCE SHEET

As at 31 December 2008
(All amounts in Hong Kong Dollars unless otherwise stated)

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Land use rights	*6*	**214,036**	68,032
Property, plant and equipment	*7*	**792,855**	719,605
Intangible assets	*8*	**566,440**	550,073
Deferred income tax assets	*10*	**15,626**	13,553
Available-for-sale financial assets	*11*	**146**	4,303
		1,589,103	1,355,566
Current assets			
Inventories	*12*	**225,783**	190,403
Trade and bills receivables	*13*	**414,103**	330,806
Financial assets at fair value through profit or loss	*14*	**2,608**	493
Prepayments, deposits and other receivables	*15*	**44,165**	53,616
Pledged bank deposits	*16*	**16,232**	42,976
Cash and cash equivalents	*16*	**219,453**	98,983
		922,344	717,277
Total assets		**2,511,447**	2,072,843
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*17*	**46,959**	44,080
Reserves	*18*	**1,321,885**	1,151,216
		1,368,844	1,195,296
Minority interests		**945**	800
Total equity		**1,369,789**	1,196,096

CONSOLIDATED BALANCE SHEET

As at 31 December 2008
(All amounts in Hong Kong Dollars unless otherwise stated)

	Note	**2008** **HK$'000**	2007 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	**62,428**	90,519
Convertible bonds	*20*	**132,720**	151,135
Deferred income tax liabilities	*10*	**37,019**	41,999
Deferred revenue	*21*	**4,649**	–
Long-term payables	*22*	**15,661**	17,649
		252,477	301,302
Current liabilities			
Trade and bills payable	*23*	**143,046**	137,933
Advanced receipts from customers		**15,978**	23,368
Accruals and other payables	*24*	**195,876**	109,438
Income tax payable		**6,317**	22,366
Borrowings	*19*	**527,964**	282,340
		889,181	575,445
Total liabilities		**1,141,658**	876,747
Total equity and liabilities		**2,511,447**	2,072,843
Net current assets		**33,163**	141,832
Total assets less current liabilities		**1,622,266**	1,497,398

WU QIN
Director

QU JIGUANG
Director

The accompanying notes are an integral part of these consolidated financial statements.

BALANCE SHEET OF THE COMPANY

As at 31 December 2008
(All amounts in Hong Kong Dollars unless otherwise stated)

	Note	**2008** **HK$'000**	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**3,060**	3,388
Investments in subsidiaries and advance to a subsidiary	9	**1,220,269**	1,134,201
		1,223,329	1,137,589
Current assets			
Dividends receivable		**39,427**	42,718
Prepayments, deposits and other receivables	15	**1,527**	2,063
Amounts due from subsidiaries	9	**18,046**	15,195
Pledged bank deposits	16	**8,542**	20,886
Cash and cash equivalents	16	**40,832**	14,028
		108,374	94,890
Total assets		**1,331,703**	1,232,479
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**46,959**	44,080
Reserves	18	**985,286**	895,279
Total equity		**1,032,245**	939,359
LIABILITIES			
Non-current liabilities			
Borrowings	19	**39,750**	74,500
Convertible bonds	20	**132,720**	151,135
Deferred income tax liabilities		**950**	1,875
		173,420	227,510
Current liabilities			
Accruals and other payables	24	**6,288**	7,110
Borrowings	19	**119,750**	58,500
		126,038	65,610
Total liabilities		**299,458**	293,120
Total equity and liabilities		**1,331,703**	1,232,479
Net current (liabilities)/assets		**(17,664)**	29,280
Total assets less current liabilities		**1,205,665**	1,166,869

WU QIN
Director

QU JIGUANG
Director

The accompanying notes are an integral part of this balance sheet of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008
(All amounts in Hong Kong Dollars unless otherwise stated)

	Note	2008 HK$'000	2007 HK$'000
Revenue	25	**1,591,028**	1,139,431
Cost of sales	26	**(863,496)**	(560,936)
Gross profit		**727,532**	578,495
Selling and marketing costs	26	**(389,091)**	(290,754)
General and administrative expenses	26	**(221,817)**	(150,778)
Other gains – net	25	**15,780**	24,354
Operating profit		**132,404**	161,317
Finance income	27	**2,100**	3,871
Finance costs	27	**(41,222)**	(33,186)
Finance costs – net		**(39,122)**	(29,315)
Profit before income tax		**93,282**	132,002
Income tax credit/(expense)	28	**8,914**	(12,442)
Profit for the year		**102,196**	119,560
Attributable to:			
Equity holders of the Company		**102,106**	119,530
Minority interest		**90**	30
		102,196	119,560
Earnings per share for profit attributable to the equity holders of the Company (expressed in HK$ per share)			
– Basic	32	**0.050**	0.069
– Diluted	32	**0.050**	0.067
Dividends	33	**32,432**	32,236

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008
(All amounts in Hong Kong Dollars unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital	Reserves	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2008	44,080	1,151,216	1,195,296	800	1,196,096
Issue of shares-Conversion of convertible bonds	147	6,164	6,311	–	6,311
Redemption of convertible bonds	–	(1,967)	(1,967)	–	(1,967)
Dividends paid to equity holders of the Company	–	(24,324)	(24,324)	–	(24,324)
Share option scheme-Value of services	–	15,346	15,346	–	15,346
Profit for the year	–	102,106	102,106	90	102,196
Currency translation differences	2,732	73,344	76,076	55	76,131
Balance at 31 December 2008	46,959	1,321,885	1,368,844	945	1,369,789
Balance at 1 January 2007	30,088	469,893	499,981	–	499,981
Issue of shares					
– Cash	11,000	522,500	533,500	–	533,500
– Conversion of convertible bonds	343	13,883	14,226	–	14,226
Equity component of convertible bonds	–	9,274	9,274	–	9,274
Dividends paid to equity holders of the Company	–	(40,409)	(40,409)	–	(40,409)
Acquisition of additional interest in a subsidiary	–	(2,486)	(2,486)	–	(2,486)
Acquisition of a subsidiary	–	–	–	770	770
Profit for the year	–	119,530	119,530	30	119,560
Currency translation differences	2,649	59,031	61,680	–	61,680
Balance at 31 December 2007	44,080	1,151,216	1,195,296	800	1,196,096

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008
(All amounts in Hong Kong Dollars unless otherwise stated)

	Note	**2008** ***HK$'000***	2007 *HK$'000*
Cash flows from operating activities			
Cash generated from operations	*34(a)*	**192,503**	123,583
Interest paid		**(33,764)**	(24,660)
Income tax paid		**(16,054)**	(13,097)
Net cash generated from operating activities		**142,685**	85,826
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(168,580)
Acquisition of additional interest in a subsidiary		**–**	(2,486)
Purchase of land use rights		**(60,277)**	(977)
Purchase of property, plant and equipment		**(221,608)**	(83,064)
Proceeds from disposals of property, plant and equipment	*34(b)*	**70,992**	525
Purchase of intangible assets		**–**	(3,820)
Purchase of financial assets at fair value through profit or loss		**(4,294)**	(30,802)
Proceeds from sale of financial assets at fair value through profit or loss		**987**	48,028
Proceeds from sale of available-for-sale financial assets		**4,719**	–
Disposal of a subsidiary (cash and cash equivalents disposed)	*35*	**(177)**	–
Interest received		**2,100**	3,871
Net cash used in investing activities		**(207,558)**	(237,305)
Cash flows from financing activities			
Redemption of convertible bonds	*20*	**(32,500)**	–
Issuance of convertible bonds, net of issuance costs		**–**	160,538
Proceeds from bank borrowings		**517,675**	246,617
Repayments of bank borrowings		**(313,126)**	(262,935)
Decrease/(increase) of pledged bank deposits		**27,065**	(18,700)
Dividends paid to equity shareholders of the Company		**(25,074)**	(42,271)
Decrease in amount due to minority shareholders of a subsidiary		**–**	(12,099)
Net cash inflows from financing activities		**174,040**	71,150
Net increase/(decrease) in cash and cash equivalents		**109,167**	(80,329)
Cash and cash equivalents at beginning of the year		**98,983**	166,608
Effect of foreign exchange rate changes		**11,303**	12,704
Cash and cash equivalents at end of the year		**219,453**	98,983

The accompanying notes 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 engaged in the research, development, manufacturing and selling of a wide range of finished medicines and bulk pharmaceutical products to hospitals and distributors. The Group has manufacturing plants in Hebei Province and Shaanxi Province, the People's Republic of China ("PRC"; "Mainland China"), and sells to customers mainly in Mainland China.

The Company is an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company's 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 Hong Kong Dollars ("HK$"), unless otherwise stated. In 2008, Group has changed the presentation currency of the consolidated financial statements from Chinese Renminbi ("RMB") to HK$ (see Note 2.4). These consolidated financial statements have been approved for issue by the Company's Board of Directors on 24 April 2009.

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") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 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) Amendment and interpretation effective in 2008 and relevant to the Group's operations

- HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendments are effective prospectively for annual period starting from 1 July 2008. These amendments do not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

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

2.1 Basis of preparation *(Continued)*

(a) ***Amendment and interpretation effective in 2008 and relevant to the Group's operations*** *(Continued)*

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', 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. This interpretation does not have any impact on the Group's financial statements as the Group has already adopted the principles that are consistent with HK(IFRIC) – Int 11.

(b) ***Interpretations to standards effective in 2008 but not relevant to the Group's operations***

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

- HK(IFRIC) – Int 12, 'Service concession arrangements'.
- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective for annual period starting from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both consolidated income statement and consolidated statement of comprehensive income will be presented as performance statements.

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)*

- HKAS 23 (Revised), 'Borrowing costs' (effective for annual period starting 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 (Revised) from 1 January 2009. Management does not anticipate any impact on the Group's financial statements as the Group has already followed the principles of capitalising borrowing costs for qualify assets in accordance with existing HKAS 23.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKFRS 2 (Amendment), 'Share-based payment' (effective for annual period starting from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

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 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', 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, but it is not expected to have a material impact on the number of reportable segments as well as the manner in which the segments are reported.

- HKICPA's improvements to HKFRS published in October 2008

  – HKAS 1 (Amendment), 'Presentation of financial statements' (effective for annual period starting from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

  – HKAS 23 (Amendment), 'Borrowing costs' (effective for annual period starting from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

  – HKAS 36 (Amendment), 'Impairment of assets' (effective for annual period starting from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  – HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

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)

– HKAS 7 (Amendment) (effective for annual period starting from 1 January 2009), 'Financial instruments: Disclosures'. The amendment forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will apply this amendment from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

– There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

(d) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group's operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are currently not relevant for the Group's operations:

- HKAS 19 (Amendment), 'Employee benefits' (effective for annual period starting from 1 January 2009).
- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective for annual period starting from 1 January 2009).
- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective for annual period starting from 1 January 2009).

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

2.1 Basis of preparation *(Continued)*

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

- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective for annual period starting from 1 July 2009).

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009).

- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments" (effective for annual period starting from 1 January 2009).

- HK(IFRIC) – Int 9 and HKAS 39 – 'Embedded derivatives' (effective for annual period starting from 30 June 2009).

- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective for annual period starting from 1 July 2008)

- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective for annual period starting from 1 January 2009).

- HK(IFRIC) – Int 16 , 'Hedges of a net investment in a foreign operation' (effective for annual period starting from 1 October 2008).

- HK(IFRIC) – Int 17 – 'Distributions of non-cash assets to owners' (effective for annual period starting from 1 July 2009).

- HK(IFRIC) – Int 18 – 'Transfers of assets from customers' (effective for annual period starting from 1 July 2009).

- HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective for annual period starting from 1 January 2009).

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

2.1 Basis of preparation *(Continued)*

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

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective for annual period starting from 1 July 2009).

- HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective for annual period starting from 1 January 2009).

- HKICPA's improvements to HKFRS published in October 2008

  – HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective for annual period starting from 1 January 2009).

  – HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective for annual period starting from 1 January 2009).

  – HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective for annual period starting from 1 January 2009).

  – HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective for annual period starting from 1 January 2009).

  – HKAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to HKAS 32 and HKFRS 7) (effective for annual period starting from 1 January 2009).

  – HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009).

  – HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective for annual period starting from 1 January 2009).

  – HKAS 41 (Amendment), 'Agriculture' (effective for annual period starting from 1 January 2009).

  – Amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above.

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

2.2 Consolidation

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

(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 at 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. 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 consolidated income statement.

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. 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 the consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. For disposals to minority interests, differences between the consideration and the relevant share of minority interests are also recorded in equity.

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

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 returns 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 Hong Kong Dollars, which is the Company's presentation currency.

Since the listing of the Company in Hong Kong in December 2005, the Group had followed its previous practice and adopted RMB to be the presentation currency of its consolidated financial statements. The Group performs regular reviews on the appropriateness of the presentation currency as part of its on-going financial management. In 2008, it has changed the presentation currency for the preparation of consolidated financial statements from RMB to HK$ to enhance the comparability of its consolidated financial statements with other Hong Kong listed companies in the pharmaceutical industry.

(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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses), net'.

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

2.4 Foreign currency translation *(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 the income statement, 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 the income statement 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:

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

(ii) 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

(iii) all resulting exchange differences are recognised in 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 consolidated 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipments are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

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 period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs 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, fixtures and office 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 gains/(losses) – net, in the income statements.

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 an appropriate category of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Land use rights

All land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights. They are expensed in the income statement on a straight-line basis over the periods of the leases, or when there is impairment, the impairment is expensed in the income statement.

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

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 and carried at cost less accumulated impairment losses, if any. 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives as follows:

–	Trademarks	50 years
–	Patents	5-10 years

(c) Customer relationships

Customer relationships are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. They represent the fair value attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 years.

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

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables 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.

(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 those with maturities greater than 12 months after the balance sheet date are classified as non-current assets. Loans and receivables are classified as trade and other receivables and cash and cash equivalents in the balance sheet.

Loans and receivables are carried at amortised cost using the effective interest method.

(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 way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets 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 financial assets 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.

When financial assets 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 financial assets.

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)

Financial assets are stated at fair values. 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. However, if the range of reasonable fair value estimate is significant and the probabilities of various estimates cannot be reasonably assessed, such financial assets are carried out at cost less accumulated impairment losses.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the asset is impaired. The cumulative loss, which is 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 and other 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, if any. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less.

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 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond, and is recorded as a liability on an amortised cost basis until extinguished on conversion, redemption or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option, and 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. All other borrowing costs are charged to the income statement in the period in which they are incurred.

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

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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/places where the Company and its subsidiaries 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, 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.

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 difference 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 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.

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

2.18 Employee benefits *(Continued)*

(b) Pension obligations

(i) Defined contribution plan

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contributions have been paid.

The contributions are recognised as staff costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Defined benefit plan

Typically, a defined benefit plan defines the amount of pension benefit that an employee will receive on retirement, which 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)*

(ii) Defined benefit plan (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.

(iii) Other post – retirement benefits

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 plan.

(iv) Termination benefits

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee benefits *(Continued)*

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity) over a specified time period. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

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

2.20 Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to purchases of land use rights and property, plant and equipment are included in non-current liabilities and recognised in the income statement over the life of depreciable assets by way of a reduced depreciation and amortisation charge.

2.21 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services 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.

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.

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

(ii) Processing income is recognised when the services are rendered, by reference to the actual service provided as a proportion of the total services to be provided.

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

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

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

Advances and deposits from customers are recognised as liabilities in the Group's financial statements as advanced receipts from customers, when there are future obligations to provide goods and services. They are derecognised upon sales of goods and provision of services as described above.

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

2.22 Operating leases (as lessee)

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.

2.23 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

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

2.25 Dividend distributions

Dividend distributions to the Company's equity holders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's equity holders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The ongoing global financial crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have led to bank failures and bank rescues in the United States of America ("USA"), Western Europe and elsewhere. The global financial crisis has also led to current or potential recession in major economies. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

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 currency exchange risk

The Group mainly operates in Mainland China, with most of its transactions denominated and settled in RMB, which is the functional currency of the Company and its subsidiaries. The Group is exposed to foreign exchange risk arising from Hong Kong Dollars since certain of cash and cash equivalents and borrowings are denominated in Hong Kong Dollars. The Group is also exposed to foreign exchange risk through transactions that are denominated in a currency other than the functional currency of the Company and its subsidiaries.

The Group manages its foreign currency exchange risks by performing regular review and monitoring its foreign currency exposures. It has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

At 31 December 2008, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's net profit for the year would have been HK$9,323,000 (2007: 5%, HK$4,492,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents, prepayments and other receivables, accruals and other payables, and borrowings. Profit is more sensitive to movement in RMB/HK$ exchange rates in 2008 than 2007 because of the increased amount of HK$ denominated borrowings.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

Except for pledged bank deposits, bank deposits and cash at bank of HK$235,212,000 as at 31 December 2008 (2007: HK$141,299,000) which carried interest at weighted average interest rate of 1.2% (2007: 1.9%) per annum, the Group has no significant interest-bearing assets.

The Group's interest bearing liabilities are bank borrowings and convertible bonds. 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.

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

At the balance sheet date, if interest rate had been increased/decreased by 0.6 percentage-point and all other variables were held constant, the Group's net profit for the year ended 31 December 2008 would decrease/increase by approximately HK$3,542,000 (2007: 0.6 percentage-point, HK$2,237,000). This relates primarily to interest income from bank deposits and interest expense on bank borrowings.

(b) Credit risk

The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and bills receivables and prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

Under the ongoing global financial crisis, debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers. The Group also has policies that limit the amount of credit exposure to any financial institution.

The Group has no significant concentration of credit risk. As at 31 December 2008, majority of trade receivables are with customers having an appropriate credit history. In addition, all of the Group's pledged bank deposits and cash and cash equivalents were placed with major financial institutions in Mainland China and Hong Kong.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The liquidity crisis under the ongoing global financial crisis could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings (including bank borrowings and convertible bonds) at terms and conditions similar to those applied to earlier transactions.

As at 31 December 2008, the Group had outstanding convertible bonds (see Note 20) with face value of RMB110,000,000, which are convertible into ordinary shares of the Company at HK$0.83 per share with a fixed exchange rate of HK$1 to RMB0.98339. Unless previously redeemed or converted, the Company has to redeem the convertible bonds at 121.1547% of their principal amount on 30 May 2010, the maturity date. The conversion is a choice of the holders of the convertible bonds and is influenced by a number of factors, including the then prevailing quoted share price of the Company's shares and exchange rate between HK$ and RMB. As at 31 December 2008, the quoted market price of the Company's shares was HK$0.57 per share and the exchange rate was HK$1 to RMB0.88189.

Management believes that they are taking all the necessary measures to maintain sufficient liquidity reserve to support sustainability and growth of the Group's business in the current circumstances and to repay outstanding borrowings when they fall due. Currently, the Group finances its working capital requirements through a combination of funds generated from operations, bank borrowings and convertible bonds.

The table below analyses the Group's financial liabilities (including committed interest payments) 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
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2008				
Borrowings	**545,492**	**67,159**	–	–
Convertible bonds	–	**151,119**	–	–
Accounts and bills payable	**143,046**	–	–	–
Accruals and other current payables	**192,029**	–	–	–
	880,567	**218,278**	–	–

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

	Less than 1 year *HK$'000*	**Between 1 and 2 years** *HK$'000*	**Between 2 and 5 years** *HK$'000*	**Over 5 years** *HK$'000*
At 31 December 2007				
Borrowings	287,920	58,208	45,920	–
Convertible bonds	–	–	188,904	–
Accounts and bills payable	137,933	–	–	–
Accruals and other current payables	101,987	–	–	–
	527,840	58,208	234,824	–

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 the Company's 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 borrowings divided by total equity less minority interests. Net borrowings is calculated as total borrowings (including current and non-current borrowings and convertible bonds) less pledged bank deposits and cash and cash equivalents.

The gearing ratio was as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Bank borrowings	**590,392**	372,859
Convertible bonds	**132,720**	151,135
	723,112	523,994
Less: Pledged bank deposits and cash and cash equivalents	**(235,685)**	(141,959)
Net borrowings	**487,427**	382,035
Total equity less minority interests	**1,368,844**	1,195,296
Gearing ratio	**35.6%**	32.0%

The increase in the gearing ratio above resulted from the increase of borrowings to finance acquisition of land use rights and property, plant and equipments, and working capital.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices.

The fair value of financial instruments that are not traded in an active market (such as trade and bills receivables and cash and cash equivalents) 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 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 judgments 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.

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, land use rights and intangible assets

The Group's management determines the estimated useful lives for its property, plant and equipment, land use rights and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment, land use right and intangible assets of similar nature and functions, or based on value-in-use calculations or market valuations with reference to the estimated periods that the Group intends to derive future economic benefits from the use of intangible assets. It could change significantly as a result of technical innovations, change in customer taste and competitor actions in response to severe industry cycles. Management will increase the depreciation or amortisation charge 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) Impairment of property, plant and equipment, land use rights and intangible assets (other than goodwill)

Impairment losses for property, plant and equipment, land use rights and intangible assets are 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 at each of the balance sheet date. Changing the assumptions selected by the Group's management in assessing impairment, including the discount rates or the operating and growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

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

(c) Impairment of goodwill

The Group's management 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.

(d) 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 technical innovations, changes in customer taste and competitor actions in response to changes in market conditions. The Group's management reassesses the estimates at each balance sheet date.

(e) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. These estimates are based on the credit history of its customers and other debtors and current market condition. The Group's management reassesses the provision at each balance sheet date.

(f) Post-employment benefits obligation

The Group's management reassesses the amount of provision for post-employment benefits obligations at each balance sheet date using the projected unit credit method. Under this method, the determination of the present value of post-employment benefits obligation depends on a number of key assumptions like discount rate and resignation rate. Any changes in these assumptions will impact the carrying amount of post-employment benefits obligations.

5. SEGMENT INFORMATION – GROUP

(a) Primary reporting – Business segments

As at 31 December 2008, the Group operated in two business segments: (i) manufacturing and sale of intravenous infusion solution, and (ii) manufacturing and sale of antibiotics and others.

The segment results for the year ended 31 December 2008 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	**573,583**	**1,017,445**	**–**	**1,591,028**
Operating profit/(loss) segment results	**113,020**	**50,745**	**(31,361)**	**132,404**
Finance income				**2,100**
Finance costs				**(41,222)**
Profit before income tax				**93,282**
Income tax income				**8,914**
Profit for the year				**102,196**

Other segment items included in the consolidated income statement for the year ended 31 December 2008 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amortisation of land use rights	**1,524**	**337**	**–**	**1,861**
Depreciation of property, plant and equipment	**35,881**	**31,743**	**626**	**68,250**
Amortisation of intangible assets	**15,988**	**1,093**	**–**	**17,081**
Impairment of inventories	**–**	**6,601**	**–**	**6,601**
Impairment of receivables	**–**	**13,699**	**–**	**13,699**
Research and development expenses	**2,282**	**7,127**	**–**	**9,409**

5. SEGMENT INFORMATION – GROUP *(Continued)*

(a) Primary reporting – Business segments *(Continued)*

The segment results for the year ended 31 December 2007 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	240,736	898,695	–	1,139,431
Operating profit/(loss) segment results	58,663	118,347	(15,693)	161,317
Finance income				3,871
Finance costs				(33,186)
Profit before income tax				132,002
Income tax expense				(12,442)
Profit for the year				119,560

Other segment items included in the consolidated income statement for the year ended 31 December 2007 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amortisation of land use rights	714	391	–	1,105
Depreciation of property, plant and equipment	15,127	31,740	598	47,465
Amortisation of intangible assets	1,267	1,038	–	2,305
Reversal of impairment of inventories	–	(82)	–	(82)
Impairment of receivables	–	1,641	–	1,641
Research and development expenses	722	4,867	–	5,589

5. SEGMENT INFORMATION – GROUP *(Continued)*

(a) Primary reporting – Business segments *(Continued)*

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Intravenous infusion solution *HK$'000*	**Antibiotics and others** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Total assets	**1,367,351**	**1,090,135**	**53,961**	**2,511,447**
Total liabilities	**364,093**	**479,095**	**298,470**	**1,141,658**
Capital expenditure	**149,062**	**198,152**	**183**	**347,397**

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total assets	1,133,013	899,465	40,365	2,072,843
Total liabilities	277,010	307,497	292,240	876,747
Capital expenditure	919,619	40,982	1,231	961,832

Unallocated operating loss mainly contributed by share-based compensation in respect of share options granted to directors and employees and other corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade, bills and other receivables, pledged bank deposits and cash and cash equivalents. Unallocated assets mainly comprise corporate cash and deferred income tax assets.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise deferred income tax liabilities, corporate borrowings and convertible bonds.

Capital expenditure comprises additions to land use rights, property, plant and equipment, and intangible assets, include additions resulting from acquisitions through business combinations.

5. SEGMENT INFORMATION – GROUP *(Continued)*

(b) Secondary reporting format – Geographical segments

The Group mainly operates in Mainland China. Substantially all of the Group's assets are located in Mainland China. Accordingly, no analysis by geographical segments is presented.

6. LAND USE RIGHTS – GROUP

	2008	2007
	HK$'000	*HK$'000*
At 1 January		
Cost	**69,690**	7,390
Accumulated amortisation	**(1,658)**	(477)
Net book amount	**68,032**	6,913
Year ended 31 December		
Opening net book amount	**68,032**	6,913
Additions	**143,568**	977
Additions resulting from acquisition of a subsidiary	**–**	62,404
Disposals resulting from disposal of a subsidiary *(Note 35)*	**(4,310)**	–
Disposals	**–**	(3,794)
Amortisation	**(1,861)**	(1,105)
Exchange differences	**8,607**	2,637
Closing net book amount	**214,036**	68,032
At 31 December		
Cost	**216,392**	69,690
Accumulated amortisation	**(2,356)**	(1,658)
Net book amount	**214,036**	68,032

Land use rights are located in Hebei Province and Shaanxi Province, Mainland China, and are held on leases of 37 to 46 years from the dates of acquisition.

As at 31 December 2008, the Group's land use rights with net book amount of HK$55,881,000 (2007: HK$57,927,000) were pledged as collateral for the Group's bank borrowings *(Note 19)*.

During the year ended 31 December 2008, addition of land use rights amounting to HK$139,387,000 (2007: Nil) were made from Rejoy Group Limited Liability Company, a related party *(Note 36)*.

Amortisation of land use rights has been included in general and administrative expenses.

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Vehicles	Construction-in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007						
Cost	213,347	276,085	19,961	30,123	68,214	607,730
Accumulated depreciation	(53,636)	(170,663)	(11,148)	(13,435)	–	(248,882)
Impairment losses	–	(578)	–	–	–	(578)
Net book amount	159,711	104,844	8,813	16,688	68,214	358,270
Year ended 31 December 2007						
Opening net book amount	159,711	104,844	8,813	16,688	68,214	358,270
Additions	6,077	20,103	2,280	7,794	55,890	92,144
Additions resulting from acquisition of a subsidiary	101,801	161,569	6,094	4,222	6,792	280,478
Transfers	13,436	13,007	–	–	(26,443)	–
Disposals	(666)	(661)	(19)	(398)	–	(1,744)
Depreciation	(9,988)	(29,347)	(4,107)	(4,023)	–	(47,465)
Exchange differences	15,682	13,650	798	1,495	6,297	37,922
Closing net book amount	286,053	283,165	13,859	25,778	110,750	719,605
At 31 December 2007						
Cost	353,071	496,200	29,842	44,048	110,750	1,033,911
Accumulated depreciation	(67,018)	(212,413)	(15,983)	(18,270)	–	(313,684)
Impairment losses	–	(622)	–	–	–	(622)
Net book amount	286,053	283,165	13,859	25,778	110,750	719,605
Year ended 31 December 2008						
Opening net book amount	286,053	283,165	13,859	25,778	110,750	719,605
Additions	1,113	47,064	9,173	5,471	141,008	203,829
Transfers	22,308	67,794	1,956	–	(92,058)	–
Reclassifications	–	1,760	(437)	(1,323)	–	–
Disposals	(35,152)	(4,087)	(3)	(1,005)	(32,558)	(72,805)
Disposals resulting from disposal of a subsidiary *(Note 35)*	(17,460)	(17,915)	(135)	(526)	–	(36,036)
Depreciation	(13,417)	(45,626)	(4,573)	(4,634)	–	(68,250)
Exchange differences	17,580	19,009	1,043	1,531	7,349	46,512
Closing net book amount	261,025	351,164	20,883	25,292	134,491	792,855
At 31 December 2008						
Cost	332,335	611,726	42,509	44,363	134,491	1,165,424
Accumulated depreciation	(71,310)	(260,329)	(21,626)	(19,071)	–	(372,336)
Impairment losses	–	(233)	–	–		(233)
Net book amount	261,025	351,164	20,883	25,292	134,491	792,855

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

Group *(Continued)*

The buildings are located in Hebei Province and Shaanxi Province, Mainland China.

Construction-in-progress represents buildings under construction and plant and machinery pending installation. The buildings under construction are located in Hebei Province and Shaanxi Province, Mainland China.

During the year ended 31 December 2008, disposals of property, plant and equipment with the net book amount of HK$71,367,000 (2007: Nil) were made to Xi'an Rejoy Real Estate Co., Ltd., a related party *(Note 36),* for HK$71,367,000 (2007: Nil).

Depreciation expense recognised in the consolidated income statement is analysed as follows:

	2008	2007
	HK$'000	*HK$'000*
Cost of sales	**44,496**	29,384
Selling and marketing costs	**2,021**	1,672
General and administrative expenses	**21,733**	16,409
	68,250	47,465

As at 31 December 2008, buildings, plant and machinery with net book amount of HK$245,190,000 (2007: HK$204,213,000) were pledged as collateral for the Group's bank borrowings *(Note 19)*.

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

Company

	Furniture, fixtures and office equipment *HK$'000*	**Vehicles** *HK$'000*	**Total** *HK$'000*
At 1 January 2007			
Cost	1,089	1,821	2,910
Accumulated depreciation	(139)	(223)	(362)
Net book amount	950	1,598	2,548
Opening net book amount	950	1,598	2,548
Additions	1,163	67	1,230
Depreciation	(182)	(416)	(598)
Exchange differences	105	103	208
Closing net book amount	2,036	1,352	3,388
At 31 December 2007			
Cost	2,374	2,024	4,398
Accumulated depreciation	(338)	(672)	(1,010)
Net book amount	2,036	1,352	3,388
Year ended 31 December 2008			
Opening net book amount	2,036	1,352	3,388
Additions	173	–	173
Depreciation	(225)	(401)	(626)
Exchange differences	82	43	125
Closing net book amount	2,066	994	3,060
At 31 December 2008			
Cost	2,712	2,149	4,861
Accumulated depreciation	(646)	(1,155)	(1,801)
Net book amount	2,066	994	3,060

8. INTANGIBLE ASSETS – GROUP

	Goodwill *HK$'000*	Trademark and patents *HK$'000*	Customer relationships *HK$'000*	Total *HK$'000*
At 1 January 2007				
Cost	748	7,333	–	8,081
Accumulated amortisation	(748)	(382)	–	(1,130)
Net book amount	–	6,951	–	6,951
Year ended 31 December 2007				
Opening net book amount	–	6,951	–	6,951
Additions resulting from acquisition of a subsidiary	413,979	45,857	62,173	522,009
Additions	–	3,820	–	3,820
Amortisation	–	(1,683)	(622)	(2,305)
Exchange differences	15,096	2,258	2,244	19,598
Closing net book amount	429,075	57,203	63,795	550,073
At 31 December 2007				
Cost	429,075	59,501	64,440	553,016
Accumulated amortisation	–	(2,298)	(645)	(2,943)
Net book amount	429,075	57,203	63,795	550,073
Year ended 31 December 2008				
Opening net book amount	429,075	57,203	63,795	550,073
Disposals resulting from disposal of a subsidiary *(Note 35)*	–	(11)	–	(11)
Amortisation	–	(2,479)	(14,602)	(17,081)
Exchange differences	26,511	3,457	3,491	33,459
Closing net book amount	455,586	58,170	52,684	566,440
At 31 December 2008				
Cost	455,586	63,308	68,421	587,315
Accumulated amortisation	–	(5,138)	(15,737)	(20,875)
Net book amount	455,586	58,170	52,684	566,440

Amortisation of HK$17,081,000 (2007: HK$2,305,000) is included in general and administrative expenses.

8. INTANGIBLE ASSETS – GROUP *(Continued)*

Impairment test of goodwill:

Goodwill is allocated to the intravenous infusion solution business in Mainland China, the cash-generating unit (CGU) identified.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	2008	2007
Gross margin	**46.6%**	46.7%
Growth rate	**3%**	3%
Pre-tax discount rate	**14.1%**	17.2%

Management determined budgeted gross margin based on past performance and its expectations for the market development. The growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the operating segment.

9. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2008 ***HK$'000***	2007 *HK$'000*
Investments in unlisted shares, at cost	**1,170,761**	1,102,631
Advance to a subsidiary – non-current	**49,508**	31,570
	1,220,269	1,134,201

Advance to a subsidiary represents equity funding by the Company and is measured in accordance with the Company's accounting policy for investments in subsidiaries. It is unsecured and non-interest bearing.

(All amounts in Hong Kong Dollars unless otherwise stated)

9. INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

The following are details of principal subsidiaries, all of which are unlisted, at 31 December 2008:

Name	Place of incorporation and type of legal entity	Principal activities and place of operations	Particulars of issued and fully paid share capital	Interest held	
				2008	2007
New Orient Investments Limited ("New Orient")	Limited liability company incorporated in Samo	Investment holding company in Hong Kong	USD1	**100% (Directly held)**	100% (Directly held)
Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("No. 4 Pharm")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Heibei Province, Mainland China	RMB110,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Shaanxi Province, Mainland China	RMB280,000,000	**100% (Directly held)**	100% (Directly held)
Shenzhen Lijun Pharmaceutical Co., Ltd. ("Shenzhen Lijun")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Guangdong Province, Mainland China	RMB5,000,000	**68% (Indirectly held)**	68% (Indirectly held)

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2008 (2007: None).

Amounts due from subsidiaries – current

These balance are unsecured, non-interest bearing and without pre-determined repayment terms.

10. DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	2008 *HK$'000*	2007 *HK$'000*
Deferred tax assets:		
– to be recovered after more than 12 months	**3,706**	4,137
– to be recovered within 12 months	**11,920**	9,416
	15,626	13,553
Deferred tax liabilities:		
– to be settled after more than 12 months	**34,470**	41,149
– to be settled within 12 months	**2,549**	850
	37,019	41,999
Deferred tax liabilities-net	**21,393**	28,446

The gross movements in the deferred income tax account are as follows:

	2008 *HK$'000*	2007 *HK$'000*
Beginning of the year	**28,446**	(8,363)
Increase resulting from acquisition of a subsidiary	**–**	38,283
Credited to the consolidated income statement *(Note 28)*	**(8,060)**	(3,990)
(Credited)/charged to equity	**(500)**	1,809
Exchange differences	**1,507**	707
End of the year	**21,393**	28,446

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

The movements in deferred tax assets are as follows:

	Accrual of expenses *HK$'000*	**Provision for impairments** *HK$'000*	**Post-employment benefits** *HK$'000*	**Total** *HK$'000*
At 1 January 2007	2,651	2,882	2,830	8,363
Acquisition of a subsidiary	1,059	–	–	1,059
Credited/(charged) to the consolidated income statement	(2)	1,712	1,650	3,360
Exchange differences	232	273	266	771
At 31 December 2007	3,940	4,867	4,746	13,553
Credited/(charged) to the consolidated income statement	2,175	(137)	(840)	1,198
Exchange differences	309	298	268	875
At 31 December 2008	6,424	5,028	4,174	15,626

The movements in deferred tax liabilities are as follows:

	Equity component of convertible bonds *HK$'000*	**Revaluation of assets** *HK$'000*	**Total** *HK$'000*
At 1 January 2007	–	–	–
Credited to the consolidated income statement	–	(630)	(630)
Charged/(credited) to equity			
– Issue of convertible bonds	1,956	–	1,956
– Conversion of convertible bonds	(147)	–	(147)
Acquisition of a subsidiary	–	39,342	39,342
Exchange differences	66	1,412	1,478
At 31 December 2007	1,875	40,124	41,999
Credited to the consolidated income statement	(525)	(6,337)	(6,862)
Credited to equity			
– Redemption of convertible bonds	(417)	–	(417)
– Conversion of convertible bonds	(83)	–	(83)
Exchange differences	100	2,282	2,382
At 31 December 2008	950	36,069	37,019

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2008	2007
	HK$'000	*HK$'000*
Beginning of the year	**4,303**	606
Additions	**–**	4,018
Disposals	**(4,290)**	(495)
Exchange differences	**133**	174
End of the year	**146**	4,303

As at 31 December 2008, available-for-sale financial assets amounting to HK$146,000 represent 14.37% equity interest in Xi'an Lijun Transportation Co., Ltd., which is an unlisted company.

As at 31 December 2007, available-for-sale financial assets represent 14.37% equity interest of Xi'an Lijun Transportation Co., Ltd., amounting to HK$138,000, and 19.50% equity interest of Xi'an Lijun Real Estate Development Co., Ltd., amounting to HK$4,165,000. These two companies are unlisted companies.

The fair value of these unlisted securities as at 31 December 2008 was determined according to the enterprise value calculation based on earnings before interest expenses, income taxes, depreciation and amortisation extracted from the unaudited financial results of the investee company for the year ended 31 December 2008, which approximates the net book value.

12. INVENTORIES – GROUP

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**104,203**	89,183
Work in progress	**33,978**	30,152
Finished goods	**87,602**	71,068
	225,783	190,403

The Group recorded HK$6,601,000 for impairment of inventories during the year ended 31 December 2008 (2007: reversal of HK$82,000). The provision has been included in cost of sales.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$640,326,000 (2007: HK$412,062,000).

13. TRADE AND BILLS RECEIVABLES – GROUP

	2008 HK$'000	2007 HK$'000
Trade and bills receivables	**436,868**	341,553
Less: provision for impairment	**(22,765)**	(10,747)
	414,103	330,806

The fair values of trade and bills receivables approximate their carrying amounts.

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

	2008 HK$'000	2007 HK$'000
Within 3 months	**317,027**	265,274
4 to 6 months	**68,229**	47,206
7 to 12 months	**33,018**	22,885
1 to 2 years	**16,547**	4,086
2 to 3 years	**1,351**	630
More than 3 years	**696**	1,472
	436,868	341,553

As at 31 December 2008, past-due trade and bills receivables amounting to approximately HK$119,841,000 (2007: HK$76,279,000) were assessed for impairment and provision of HK$22,765,000 (2007: HK$10,747,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year. Collateral or other credit enhancement held by the Group have been considered when determining the impairment provision.

13. TRADE AND BILLS RECEIVABLES – GROUP *(Continued)*

The ageing of individually impaired receivables and an estimate of the fair value of the collateral and other credit enhancement are as follows:

	2008 *HK$'000*	2007 *HK$'000*
4 to 6 months	**1,130**	–
7 to 12 months	**11,226**	–
1 to 2 years	**16,547**	4,086
2 to 3 years	**1,351**	630
More than 3 years	**696**	1,472
	30,950	6,188
Less: Expected recovery	**(15,628)**	(5,347)
Impairment	**15,322**	841

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

	2008 *HK$'000*	2007 *HK$'000*
Beginning of the year	**10,747**	11,633
Provision for impairment	**13,699**	1,641
Receivables written off as uncollectible	**(1,453)**	(3,315)
Released resulting from disposal of a subsidiary	**(1,232)**	–
Exchange differences	**1,004**	788
End of the year	**22,765**	10,747

The creation and release of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

13. TRADE AND BILLS RECEIVABLES – GROUP *(Continued)*

The Group's trade receivables were denominated in the following currencies:

	2008	2007
	HK$'000	*HK$'000*
RMB	**432,237**	334,238
USD	**4,631**	7,315
	436,868	341,553

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

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2008	2007
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities – Mainland China	**2,608**	493

The fair values of equity securities are based on their closing bid prices.

Changes in fair value of financial assets at fair value through profit or loss are recorded in other gains-net.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments for purchases of inventories	**16,194**	20,926	**–**	–
Prepayments for purchases of machineries	**2,462**	–	**–**	–
Prepaid advertising costs	**6,774**	10,912	**–**	–
Amounts due from related parties *(Note 36(c))*	**6,105**	485	**–**	–
Staff advances	**2,543**	1,465	**–**	–
Receivables relating to disposal of staff quarters	**–**	9,064	**–**	–
Other receivables	**10,087**	10,764	**1,527**	2,063
	44,165	53,616	**1,527**	2,063

The fair values of prepayments, deposits and other receivables approximate their carrying amounts. The maximum exposure to credit risk at the reporting date is the fair value of the items mentioned above. The Group does not hold any collateral as security.

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Pledged bank deposits	**16,232**	42,976	**8,542**	20,886
Cash at bank and in hand	**219,453**	98,983	**40,832**	14,028
	235,685	141,959	**49,374**	34,914

Pledged bank deposits are pledged for:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings *(Note 19)*	**8,542**	20,886	**8,542**	20,886
Payable for property, plant and equipment *(Note 24)*	**5,274**	18,353	**–**	–
Bills payable *(Note 23)*	**2,416**	3,737	**–**	–
	16,232	42,976	**8,542**	20,886

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash and cash equivalents.

Pledged bank deposits and cash and cash equivalents were denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**183,720**	106,079	**13**	21
HK$	**49,052**	34,584	**49,051**	34,581
USD	**2,913**	1,296	**310**	312
	235,685	141,959	**49,374**	34,914

The interest bearing bank deposits (included in pledged bank deposits and cash and cash equivalents) carried a weighted average interest rate of 1.2% per annum as at 31 December 2008 (2007: 1.9%). These deposits had maturity of 3 months at inception (2007: 7 days), other than those without pre-determined maturity terms.

The Group's pledged bank deposits and cash and cash equivalents denominated in RMB were deposited with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

17. SHARE CAPITAL

	Number of shares *'000*	Ordinary shares *HK$'000*
Authorised		
At 1 January 2007 (ordinary shares of HK$0.1 each)	2,000,000	200,000
Share sub-division	8,000,000	–
At 31 December 2007 and 2008 (ordinary shares of HK$0.02 each)	10,000,000	200,000
Issued and fully paid up		
At 1 January 2007 (ordinary shares of HK$0.1 each)	290,500	30,088
Issue of shares		
– cash	110,000	11,000
– conversion of convertible bonds	4,900	98
	405,400	41,186
Share sub-division	1,602,000	–
After sub-division (ordinary shares of HK$0.02 each)	2,007,400	41,186
Issue of shares-conversion of convertible bonds	12,252	245
Currency translation differences	–	2,649
At 31 December 2007 (ordinary shares of HK$0.02 each)	2,019,652	44,080
Issue of shares-conversion of convertible bonds	7,351	147
Currency translation differences	–	2,732
At 31 December 2008 (ordinary shares of HK$0.02 each)	2,027,003	46,959

In August 2007, every one then 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.

During the year ended 31 December 2008, convertible bonds amounting to RMB6,000,000 (2007: RMB14,000,000) were converted into 7,351,000 (2007: 36,752,000 – after the effect of the share sub-division) ordinary shares at the fixed exchange rate of HK$1 to RMB0.98339 and the fixed conversion price of HK$0.83 per share *(Note 20)*.

17. SHARE CAPITAL *(Continued)*

Share option scheme

The Group has adopted a share option scheme, which will remain in force for 3 years up to August 2011. Share Options may be granted to any directors, employees of the Group. The exercise price is determined by the Board and shall not be less than the higher of (i) the closing price of one share as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer, which shall be a business day; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the share. The Group has no legal or constructive obligation to repurchase or settle these options in cash.

In August 2008, share options were granted to certain directors and employees to subscribe 100,000,000 shares in the Company at an exercise price of HK$0.7 per share, exercisable from August 2008 to August 2011.

The fair value of the share options granted, determined using the Binomial valuation model, was appropriately HK$15,346,000. The significant inputs into the model are share price of HK$0.7 at the grant date, exercise price of HK$0.7, volatility of 43.6%, expected dividends paid out rate of 2.4%, and annual risk-free interest rate of 2.7%. The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of daily share prices of the Company and other comparable companies over the last five years.

Share options outstanding have the following expiry date and exercise price:

Expiry date	Exercise price per share	Share options	
		2008	2007
	HK$	***'000***	*'000*
6 August 2011	0.7	**100,000**	–

18. RESERVES

Group

	Share premium	Capital reserve	Equity component of convertible bonds	Statutory reserve	Share-based payment reserve *(Note 17)*	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	120,675	156,164	–	70,659	–	122,395	469,893
Issue of shares							
– Cash	522,500	–	–	–	–	–	522,500
– Conversion of convertible bonds	14,732	–	(849)	–	–	–	13,883
Equity component of convertible bonds							
– Gross *(Note 20)*	–	–	11,230	–	–	–	11,230
– Deferred tax liabilities	–	–	(1,956)	–	–	–	(1,956)
Acquisition of additional interest in a subsidiary	–	(2,486)	–	–	–	–	(2,486)
Profit for the year	–	–	–	–	–	119,530	119,530
Dividends paid to equity holders of the Company	–	–	–	–	–	(40,409)	(40,409)
Transfer to statutory reserves	–	–	–	19,068	–	(19,068)	–
Currency translation differences	30,185	11,389	415	5,153	–	11,889	59,031
At 31 December 2007	688,092	165,067	8,840	94,880	–	194,337	1,151,216
Issue of shares							
– Conversion of convertible bonds	6,545	–	(381)	–	–	–	6,164
Redemption of convertible bonds	–	–	(1,967)	–	–	–	(1,967)
Employee share option scheme-Value of services	–	–	–	–	15,346	–	15,346
Profit for the year	–	–	–	–	–	102,106	102,106
Dividends paid to equity holders of the Company	–	–	–	–	–	(24,324)	(24,324)
Transfer to statutory reserves	–	–	–	14,335	–	(14,335)	–
Currency translation differences	42,895	10,199	536	5,862	(62)	13,914	73,344
At 31 December 2008	737,532	175,266	7,028	115,077	15,284	271,698	1,321,885

18. RESERVES *(Continued)*

As stipulated by regulations in Mainland China and Articles of Association of subsidiaries established in Mainland China, the subsidiaries established in Mainland China are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to statutory surplus reserve fund before distributing their profit. When the balance of such reserve reaches 50% of each 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.

Company

	Share premium *HK$'000*	Capital reserve *HK$'000*	Equity component of convertible bonds *HK$'000*	Share-based payment reserve *(Note 17)* *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2007	120,675	151,333	–	–	18,788	290,796
Issue of shares						
– Cash	522,500	–	–	–	–	522,500
– Conversion of convertible bonds	14,732	–	(849)	–	–	13,883
Equity component of convertible bonds	–	–	9,274	–	–	9,274
Profit for the year	–	–	–	–	55,596	55,596
Dividends paid to equity holders of the Company	–	–	–	–	(40,409)	(40,409)
Currency translation differences	30,185	11,037	415	–	2,002	43,639
At 31 December 2007	688,092	162,370	8,840	–	35,977	895,279
Issue of shares						
– Conversion of convertible bonds	6,545	–	(381)	–	–	6,164
Redemption of convertible bonds	–	–	(1,967)	–	–	(1,967)
Employee share option scheme-Value of services	–	–	–	15,346	–	15,346
Profit for the year	–	–	–	–	37,945	37,945
Dividends paid to equity holders of the Company	–	–	–	–	(24,324)	(24,324)
Currency translation differences	42,895	10,032	536	(62)	3,442	56,843
At 31 December 2008	737,532	172,402	7,028	15,284	53,040	985,286

19. BORROWINGS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current				
Non-current portion of long-term bank borrowings	**62,428**	90,519	**39,750**	74,500
Current				
Current portion of long-term bank borrowings	**66,089**	28,500	**54,750**	28,500
Short-term bank borrowings	**461,875**	253,840	**65,000**	30,000
	527,964	282,340	**119,750**	58,500
Total borrowings	**590,392**	372,859	**159,500**	133,000
Representing:				
Unsecured	**376,964**	205,386	**127,500**	105,000
Secured (i)	**144,732**	130,095	**20,000**	28,000
Guaranteed (ii)	**68,696**	37,378	**12,000**	–
	590,392	372,859	**159,500**	133,000

(i) As at 31 December 2008, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK$55,881,000 (2007: HK$57,927,000), the Group's buildings, plant and machinery with a net book amount of HK$245,190,000 (2007: HK$204,213,000), and the Group's bank deposits of HK$8,542,000 (2007: HK$20,886,000).

(ii) As at 31 December 2008, certain of the Group's bank borrowings were guaranteed by Xi'an Lijun Pharmaceutical Co., Ltd., a wholly owned subsidiary (2007: by Hebei Yuanzheng Pharmaceutical Co., Ltd, an entity controlled by the former holding company of Shijiazhuang No.4 Pharmaceutical Co., Ltd., a wholly owned subsidiary since June 2007).

19. BORROWINGS *(Continued)*

As at 31 December 2008, the Group's borrowings were repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**527,964**	282,340	**119,750**	58,500
Between 1 and 2 years	**62,428**	56,769	**39,750**	40,750
Between 2 and 5 years	**–**	33,750	**–**	33,750
	590,392	372,859	**159,500**	133,000

The borrowings were denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**430,892**	239,859	**–**	–
HK$	**159,500**	133,000	**159,500**	133,000
	590,392	372,859	**159,500**	133,000

The effective interest rates (per annum) at the balance sheet date were as follows:

	2008		2007	
	HK$	***RMB***	*HK$*	*RMB*
Bank borrowings	**5.1%**	**6.9%**	5.7%	6.4%

The fair values of short-term borrowings approximate their carrying amounts. The carrying amounts and fair values of non-current borrowings are as follows:

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings	**62,428**	90,519	**59,802**	82,572	**39,750**	74,500	**38,938**	68,339

19. BORROWINGS *(Continued)*

As at 31 December 2008, the Group has the following undrawn borrowing facilities:

	2008 *HK$'000*	2007 *HK$'000*
Fixed rate		
– expiring within one year	**11,339**	181,550
– expiring beyond one year	**23,359**	32,039
Floating rates		
– expiring within one year	**–**	41,485
– expiring beyond one year	**48,305**	–
	83,003	255,074

In respect of the Group's bank borrowings, the Group has to comply with certain restrictive financial covenants. As at 31 December 2008, the key covenants, among others, are to:

(i) maintain tangible net worth (total equity less intangible assets and minority interests) of not less than HK$793,750,000 (equivalent of RMB700,000,000) (2007: HK$400,000,000);

(ii) maintain earnings before income tax, interest expense, depreciation and amortisation (EBITDA), as defined in the relevant banking facilities, to total interest expense, as defined in the relevant banking facilities, of at least 6 times (2007: 5 times);

(iii) maintain gearing ratio (total borrowings less cash and cash equivalents to total equity less intangible assets and minority interests), as defined in the relevant banking facilities, of not exceeding 0.65 (2007: 0.7);

(iv) maintain a multiple of current assets to current liabilities of at least 1 (2007: 1); and

(v) maintain total borrowings to earnings before income tax, interest expense, depreciation and amortisation (EBITDA), as defined in the relevant banking facilities, not exceeding 3.5 times (2007: 3.5 times).

20. CONVERTIBLE BONDS

On 30 May 2007, the Company issued zero-coupon convertible bonds with total principal amount of RMB160,000,000, to be matured on 30 May 2010. The conversion price was initially set as HK$4.15 per share at a fixed exchange rate of HK$1 to RMB0.98339, and such conversion price has been adjusted to HK$0.83 per share effective from 28 August 2007 as a consequence of the Company's share sub-division *(Note 17)*. Unless previously redeemed or converted, the Company has to redeem the convertible bonds at 121.1547% of their principal amount on the maturity date.

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

20. CONVERTIBLE BONDS *(Continued)*

Liability component on 30 May 2007 is calculated as follows:

	HK$'000
Face value of convertible bonds issued on 30 May 2007	162,702
Equity component *(Note 18)*	(11,230)
Liability component on 30 May 2007	151,472
Less: Cost of issue	(2,164)
	149,308

The amount of convertible bonds recognised in the balance sheet is calculated as follows:

	2008 *HK$'000*	2007 *HK$'000*
Beginning of the year	**151,135**	149,308
Interest expense *(Note 27)*	**13,442**	8,526
Converted into ordinary shares	**(5,984)**	(14,425)
Redemption	**(35,861)**	–
Exchange differences	**9,988**	7,726
End of the year	**132,720**	151,135

On 26 September, 2008, the Company redeemed and thereafter cancelled convertible bonds with a principal amount of RMB30,000,000 (equivalent to HK$34,225,000) for a consideration of HK$32,500,000.

The fair value of the liability component of the convertible bonds outstanding at 31 December 2008 amounted to HK$139,925,000 (2007: HK$157,722,000), based on market interest rate of 4.5% (2007: 6.1%) per annum.

21. DEFERRED REVENUE – GROUP

Government grant received from a municipal government in connection with the Group's development of a high technology pharmaceutical laboratory is deferred and will be derecognised as income when the development progresses.

22. LONG-TERM PAYABLES – GROUP

Long-term payables represent the present value of the Group's obligations for post-employment benefits. The maturity profile of the long-term payables is as follows:

	2008 *HK$'000*	2007 *HK$'000*
Within 1 year	**3,847**	5,010
Between 1 to 2 years	**2,345**	3,657
Between 2 to 5 years	**4,198**	5,193
More than 5 years	**9,118**	8,799
	19,508	22,659
Less: Current portion included in current liabilities *(Note 24)*	**(3,847)**	(5,010)
	15,661	17,649

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

	2008 *HK$'000*	2007 *HK$'000*
Beginning of the year	**22,659**	15,004
Acquisition of a subsidiary	**–**	1,431
Total expense, included in staff costs		
– Current service cost	**84**	78
– Interest cost	**930**	1,274
– Actuarial (gain)/loss	**(1,014)**	3,781
Contribution paid	**(3,805)**	(235)
Exchange differences	**654**	1,326
End of the year	**19,508**	22,659

22. LONG-TERM PAYABLES – GROUP *(Continued)*

The above obligations were determined by the Group's management using the projected unit credit method. Discount rate and resignation rate adopted are as follows:

	2008	2007
Discount rate	**3.2%**	4.8%
Annual resignation rate	**2.7%**	2.7%

Compensation for termination benefit is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation by the employee, entered into an agreement with the employee specifying the terms, and advised the individual employee of the specific terms.

Detail of the retirement benefits of the Group are disclosed in Note 30.

23. TRADE AND BILLS PAYABLES – GROUP

	2008 ***HK$'000***	2007 *HK$'000*
Trade payables	**134,996**	124,050
Bills payable	**8,050**	13,883
	143,046	137,933

Credit terms for trade and bills payables range from 90 to 180 days. The ageing analysis of the trade and bills payables is as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Within 3 months	**108,658**	98,344
4 to 6 months	**18,929**	21,272
7 to 12 months	**6,648**	5,068
1 to 3 years	**6,234**	11,352
More than 3 years	**2,577**	1,897
	143,046	137,933

The Group's trade and bills payables were denominated in RMB.

As at 31 December 2008, the Group's bank deposits of HK$2,416,000 (2007: HK$3,737,000) were pledged as collateral for certain of the bills payables.

24. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payable to a related party for purchase of land use rights *(Note 36(c))*	**82,930**	1,922	**–**	–
Payables for purchase of property, plant and equipment	**4,527**	21,523	**–**	–
Accrued sales commission	**41,011**	24,949	**–**	–
Value added tax payable	**15,269**	16,166	**–**	–
Other taxes payables	**6,129**	2,040	**–**	–
Accrued salaries and wages	**10,821**	5,096	**1,988**	103
Welfare payables	**6,876**	8,679	**–**	–
Payable for advertising expense	**5,753**	4,776	**–**	–
Current portion of long-term payables *(Note 22)*	**3,847**	5,010	**–**	–
Professional fee payables	**4,590**	5,959	**2,732**	3,780
Dividend payable	**–**	750	**–**	750
Accrued interest expense	**–**	2,441	**–**	964
Others	**14,123**	10,127	**1,568**	1,513
	195,876	109,438	**6,288**	7,110

As at 31 December 2008, the Group's bank deposits of HK$5,274,000 (2007: HK$18,353,000) were pledged as collateral for the payables for purchase of property, plant and equipment.

25. REVENUE AND OTHER GAINS – GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products.

Revenue recognised is as follows:

	2008	2007
	HK$'000	*HK$'000*
Revenue:		
– Sales of pharmaceutical products	**1,582,546**	1,134,712
– Sales of raw materials and by products	**4,645**	847
– Processing income	**1,773**	2,332
– Rental income	**2,064**	1,540
	1,591,028	1,139,431
Other gains – net:		
– Gain on disposal of a subsidiary *(Note 35)*	**8,420**	–
– Gain on disposal of available-for-sale financial assets	**429**	–
– Gain on disposal of financial assets at fair value through profit or loss	**830**	17,208
– Change in fair value of financial assets at fair value through profit or loss	**(2,116)**	–
– Gain on redemption of convertible bonds	**5,745**	–
– Subsidy income	**2,442**	525
– Others	**30**	6,621
	15,780	24,354
	1,606,808	1,163,785

26. EXPENSE BY NATURE – GROUP

	2008	2007
	HK$'000	*HK$'000*
Raw materials and consumables used	**655,377**	432,700
Changes in inventories of finished goods and work in progress	**(15,051)**	(20,638)
Staff costs		
– Wages and salaries	**161,764**	106,402
– Pension costs	**15,327**	19,060
– Welfare expenses	**30,927**	24,676
– Share-based compensation *(Note 17)*	**15,346**	–
Sales commission	**151,162**	130,528
Utility expenses	**82,005**	62,820
Advertising expenses	**70,589**	58,245
Travelling, meeting and entertainment expense	**40,855**	31,012
Operating leases rental expense	**12,429**	10,508
Research and development expenses	**9,409**	5,589
Depreciation of property, plant and equipment	**68,250**	47,465
Provision for/(Reversal of) impairment of inventories	**6,601**	(82)
Provision for impairment of receivables	**13,699**	1,641
Amortisation of intangible assets	**17,081**	2,305
Amortisation of land use rights	**1,861**	1,105
Auditors' remuneration	**3,387**	3,262
Loss on disposals of property, plant and equipment	**1,813**	1,219
Others	**131,573**	84,651
Total cost of sales, selling and marketing costs and general and administrative expenses	**1,474,404**	1,002,468

27. FINANCE INCOME AND COSTS – GROUP

	2008	2007
	HK$'000	*HK$'000*
Finance income – Interest income on bank deposits	**2,100**	3,871
Finance costs		
– Interest expense of bank borrowings wholly repayable within five years	**27,344**	18,895
– Discount of bills receivables	**6,420**	5,824
– Convertible bonds *(Note 20)*	**13,442**	8,526
– Net exchange gain on bank borrowings	**(5,984)**	(59)
	41,222	33,186

28. INCOME TAX (CREDIT)/EXPENSE – GROUP

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

The Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

Subsidiaries established and operated in Mainland China are subject to Mainland China Enterprise Income Tax ("EIT") at a rate of 25% for the year ended 31 December 2008 (2007: 24%). Xi'an Lijun Pharmaceutical Co., Ltd and Shijiazhuang No.4 Pharmaceutical Co., Ltd, being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

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

	2008	2007
	HK$'000	*HK$'000*
Current income taxation – Mainland China Enterprise Income Tax	**(854)**	16,432
Deferred taxation *(Note 10)*	**(8,060)**	(3,990)
	(8,914)	12,442

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

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	**93,282**	132,002
Tax calculated at the weighted average domestic tax rate applicable to the subsidiaries	**23,321**	31,681
Tax exemption and reduction	**(18,589)**	(20,171)
Write-back of unnecessary provision	**(16,090)**	–
Expenses not deductible	**2,444**	1,292
Others	**–**	(360)
Tax (credit)/expense	**(8,914)**	12,442
Effective tax rate	**N/A**	9.4%

Provision of EIT of HK$16,090,000 in respect of the period from 2000 to 2004 has been written back as such provision is no longer considered as necessary.

The change in effective tax rates is mainly caused by the write-back of unnecessary tax provision and a change in mix of profits earned by different group companies which are subject to different tax exemption and reduction.

29. 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 HK$37,945,000 (2007: HK$55,596,000).

30. RETIREMENT BENEFITS – GROUP

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. 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 HK$1,000 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. Furthermore, the Group pays monthly allowance to certain old retired persons.

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP

(a) Directors' emoluments

The remuneration of each director of the Company is set out below:

Name	Fees	Salaries	Other benefits	Pension	Share-based compensation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008						
Executive directors						
Mr. Wu Qin	–	3,000	–	12	1,074	4,086
Mr. Qu Jiguang	–	2,600	24	12	1,074	3,710
Mr. Wu Zhihong	–	333	4	5	–	342
Mr. Huang Chao	–	600	9	6	767	1,382
Mr. Xie Yunfeng	–	600	5	6	1,074	1,685
Ms.Sun Xinglai	–	610	90	12	–	712
Mr. Wang Xianjun	–	1,116	384	12	921	2,433
Mr. Duan Wei	–	600	15	6	1,074	1,695
Mr. Wang Zhizhong	–	500	14	6	–	520
Ms. Zhang Guifu	–	300	15	6	–	321
Mr. Bao Leyuan	–	100	3	6	–	109
	–	10,359	563	89	5,984	16,995
Non-executive director						
Mr. Liu Zhiyong	60	–	–	–	–	60
Independent non-executive directors						
Mr. Wang Yibing	180	–	–	–	–	180
Mr. Leung Chong Shun	180	–	–	–	–	180
Mr. Chow Kwok Wai	180	–	–	–	–	180
	540	–	–	–	–	540
	600	10,359	563	89	5,984	17,595

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(Continued)*

(a) Directors' emoluments *(Continued)*

Name	Fees	Salaries	Other benefits	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007					
Executive directors					
Mr. Wu Qin	–	1,818	4	12	1,834
Mr. Qu Jiguang	90	1,396	2	7	1,495
Mr. Wu Zhihong	–	700	7	6	713
Mr. Huang Chao	–	600	6	6	612
Mr. Xie Yunfeng	–	430	3	6	439
Ms.Sun Xinglai	–	493	92	12	597
Mr. Wang Xianjun	–	889	312	12	1,213
Mr. Duan Wei	–	300	3	5	308
Mr. Wang Zhizhong	–	249	3	5	257
Ms. Zhang Guifu	–	149	3	5	157
	90	7,024	435	76	7,625
Non-executive director					
Mr. Liu Zhiyong	60	–	–	–	60
Independent non-executive directors					
Mr. Wang Yibing	75	–	–	–	75
Mr. Leung Chong Shun	179	–	–	–	179
Mr. Chow Kwok Wai	179	–	–	–	179
	433	–	–	–	433
	583	7,024	435	76	8,118

No directors waived any emoluments during the year ended 31 December 2008 (2007: Nil).

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 31 December 2008 and 2007 are also directors of the Company and their emoluments are disclosed in (a) above.

(c) During the year ended 31 December 2008, 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 (2007: Nil).

32. EARNINGS PER SHARE – GROUP

(a) Basic

Basic earnings per share are 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.

	2008 *HK$'000*	2007 *HK$'000*
Profit attributable to equity holders of the Company	**102,106**	119,530
Weighted average number of ordinary shares in issue after adjustment for the sub-division of shares (thousands)	**2,026,842**	1,734,867
Basic earnings per share (HK$ per share)	**0.050**	0.069

(b) Diluted

Diluted earnings per share is calculated after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only two categories of dilutive potential ordinary shares: convertible bonds and share options. For convertible bonds, it is assumed that they have been converted into ordinary shares since the beginning of the year or date of issuance (whichever is later) and, consequently the net profit is adjusted to eliminate the relevant interest expense together with the related tax effect. For outstanding share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares in the relevant periods) based on the market values of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

32. EARNINGS PER SHARE – GROUP *(Continued)*

(b) Diluted *(Continued)*

	2008 *HK$'000*	2007 *HK$'000*
Profit attributable to equity holders of the Company	**102,106**	119,530
Interest expense on convertible debt (net of tax)	**–**	8,526
Profit used to determine diluted earnings per share	**102,106**	128,056
Weighted average number of ordinary shares in issue (thousands)	**2,026,842**	1,734,867
Adjustment for conversion of convertible bonds (thousands)	**–**	178,875
Adjustment for share options (thousands)	**–**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,026,842**	1,913,742
Diluted earnings per share (HK$ per share)	**0.050**	0.067

During the year ended 31 December 2008, the dilutive effects of convertible bonds and share options are anti-dilutive and therefore not included in the above calculation.

33. DIVIDENDS

	2008 *HK$'000*	2007 *HK$'000*
Interim dividend of HK$0.006 (2007: HK$0.01 (after the sub-division as described in Note 17)) per ordinary share	**12,162**	20,074
Proposed final dividend of HK$0.01 (2007: HK$0.006) per ordinary share	**20,270**	12,162
	32,432	32,236

The directors recommend the payment of a final dividend of HK$0.01 per ordinary share, totaling HK$20,270,000 in respect of the year ended 31 December 2008. Such a dividend is to be approved by the Company's shareholders at the upcoming Annual General Meeting. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

34. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of cash generated from operations

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	**93,282**	132,002
Provision for impairment of receivables	**13,699**	1,641
Provision for/(Reversal of) impairment of inventories	**6,601**	(82)
Depreciation of property, plant and equipment	**68,250**	47,465
Loss on disposal of property, plant and equipment	**1,813**	1,219
Amortisation of land use rights	**1,861**	1,105
Amortisation of intangible assets	**17,081**	2,305
Gain on disposal of a subsidiary	**(8,420)**	–
Gain on disposal of available-for-sale financial assets	**(429)**	–
Gain on disposal of financial assets at fair value through profit	**(830)**	(17,208)
Change in fair value of financial assets at fair value through profit or loss	**2,116**	–
Gain on redemption of convertible bonds	**(5,745)**	–
Share-based compensation	**15,346**	–
Interest income	**(2,100)**	(3,871)
Interest expense	**41,222**	33,186
Operating profit before working capital changes	**243,747**	197,762
Changes in working capital:		
Increase in inventories	**(35,021)**	(54,480)
Increase in trade and bills receivables	**(72,715)**	(20,955)
Decrease in prepayments, deposits and other receivables	**11,147**	5,376
Increase in trade and bills payables	**19,284**	3,386
(Decrease)/increase in advance receipts from customers	**(7,582)**	9,717
Increase/(decrease) in accruals and other payables	**33,643**	(17,223)
Net cash inflow generated from operations	**192,503**	123,583

34. CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

	2008	2007
	HK$'000	*HK$'000*
Net book amount disposed *(Note 7)*	**72,805**	1,744
Loss on disposals of property, plant and equipment	**(1,813)**	(1,219)
Proceeds from disposals of property, plant and equipment, net of transaction costs	**70,992**	525

35. DISPOSAL OF A SUBSIDIARY

The Group had 80.675% equity interest in Shaanxi Lijun Modern Chinese Medicine Co., Ltd. On 30 June 2008, the Group disposed 51.865% equity interest in this company to Rejoy Group Limited Liability Company, a related party *(see Note 36)*, for no consideration, and another 28.81% equity interest in this company to Cao Xinru, a senior management of Rejoy Group Limited Liability Company, for no consideration.

	Total
	HK$'000
Land use rights	4,310
Property, plant and equipment	36,036
Intangible assets	11
Inventories	5,701
Trade and bills receivables	981
Prepayment, deposits and other receivables	4,437
Cash and cash equivalents	177
Borrowings	(10,237)
Trade and other payables	(45,629)
Accruals and other payables	(4,207)
Net liabilities disposed of	(8,420)
Gain on disposal	8,420
Proceeds of the disposal	–

36. 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) The directors are of the view that the following companies are related parties of the Group:

Name	Relationship
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 31.3% interest in the Company as at 31 December 2008
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 certain key management personnel of the Group
Global Printing Co., Ltd. ("Global Printing")	Controlled by Shaanxi Pharmaceutical Company, the parent company of Rejoy Group

36. 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	2008 HK$'000	2007 HK$'000
Purchasing of raw materials and packaging materials from	Rejoy Packaging	**3,738**	1,319
	Global Printing	**6,298**	–
	Rejoy Baichuan	**–**	10
		10,036	1,329
Sales of finished goods to	Rejoy Baichuan	**18,225**	18,777
	Rejoy Medicine	**4,222**	8,351
	Xi'an Pharmacy Factory	**402**	252
		22,849	27,380
Provision of utilities from	Xi'an Pharmacy Factory	**55,970**	44,516
Payment of administrative costs to	Xi'an Pharmacy Factory	**3,300**	13,395
Lease of land use rights from	Rejoy Group	**6,883**	5,627
Lease of office premises to	Rejoy Group	**214**	206
	Rejoy Medicine	**104**	–
	Rejoy Baichuan	**49**	–
	Rejoy Technology	**–**	61
		367	267
Disposal of fixed assets to	Rejoy Real Estate	**71,367**	–
Purchase of land use rights from	Rejoy Group	**139,387**	–
Disposal of interests in a subsidiary to	Rejoy Group	**Note 35**	N/A

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

36. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(Continued)*

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

	2008 **HK$'000**	2007 HK$'000
Amounts due from related parties, included in trade receivables		
– Rejoy Baichuan	**11,486**	13,810
– Rejoy Medicine	**3,850**	9,130
	15,336	22,940

	2008 **HK$'000**	2007 HK$'000
Amounts due from related parties, included in other receivables		
– Xi'an Pharmacy Factory	**5,925**	–
– Rejoy Group	**113**	214
– Rejoy Technology	**67**	63
– Rejoy Packaging	**–**	208
	6,105	485

	2008 **HK$'000**	2007 HK$'000
Amounts due to related parties, included in trade payables		
– Global Printing	**2,502**	–
– Rejoy Packaging	**117**	439
– Rejoy Baichuan	**–**	6
	2,619	445

	2008 **HK$'000**	2007 HK$'000
Amounts due to related parties, included in other payables		
– Rejoy Group	**82,930**	845

The related party balances are unsecured and interest-free.

36. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(Continued)*

(d) Key management compensation

	2008 **HK$'000**	2007 *HK$'000*
Salaries, bonus and allowances	**10,922**	7,549
Pension	**89**	76
Share-based compensation in respect of share options	**5,984**	–
	16,995	7,625

37. COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet dates contracted but not yet provided for is as follows:

	2008 **HK$'000**	2007 *HK$'000*
– Plant and machineries	**8,706**	26,571

(b) Operating lease commitments

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

	2008 **HK$'000**	2007 *HK$'000*
Not later than one year	**1,317**	6,162
Later than one year and not later than five years	**1,608**	12,985
More than five years	**7,827**	7,703
	10,752	26,850

FINANCIAL SUMMARY

	Year ended 31 December				
	2004 *HK$'000* (Audited)	2005 *HK$'000* (Audited)	2006 *HK$'000* (Audited)	2007 *HK$'000* (Audited)	**2008** ***HK$'000*** **(Audited)**
RESULTS					
Turnover	848,132	840,978	841,715	1,139,431	**1,591,028**
Profit before income tax	123,408	125,160	90,369	132,002	**93,282**
Income tax expense	(20,974)	(14,375)	(945)	(12,442)	**8,914**
Profit for the year	102,434	110,785	91,314	119,560	**102,196**
Attribute to:					
Equity holders of the Company	83,246	88,699	82,715	119,530	**102,106**
Minority interest	19,188	22,086	8,599	30	**90**

	As at 31 December				
	2004 *HK$'000* (Audited)	2005 *HK$'000* (Audited)	2006 *HK$'000* (Audited)	2007 *HK$'000* (Audited)	**2008** ***HK$'000*** **(Audited)**
ASSETS AND LIABILITIES					
Total assets	739,507	901,296	910,655	2,072,843	**2,511,447**
Total liabilities	(414,847)	(329,949)	(410,673)	(876,747)	**(1,141,658)**
Minority interest	(80,871)	(90,019)	–	(800)	**(945)**
Shareholder's equity	243,789	481,328	499,982	1,195,296	**1,368,844**