中國製藥集團有限公司
China Pharmaceutical Group Limited
Stock Code : 1093

ANNUAL REPORT | 2008

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果维康
中国营养健康倡导产品
“关爱儿童健康，关注儿童成长”果维康 健康宝贝评选大赛
果维康
石药集团


果维康


抗生素
维生素
产业技术创新战略联盟
签约仪式
石药集团
1983

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman)*
YUE Jin
FENG Zhenying
CHAK Kin Man
PAN Weidong
ZHAO John Huan
WANG Shunlong

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
HUO Zhenxing
QI Moujia
GUO Shichang
CHAN Siu Keung, Leonard

COMMITTEES

Audit Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

Remuneration Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

CHAK Kin Man
PAN Weidong

REGISTERED OFFICE

Suite 3206
32th Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China, Hebei Branch
Bank of China, Hebei Branch
Bank of China, Huhhot Branch
Bank of Communication, Hebei Branch
China Construction Bank, Hebei Branch
China Minsheng Banking Corporation Limited, Shijiazhuang Branch
CITIC Ka Wah Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Industrial and Commercial Bank of China, Hebei Branch

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

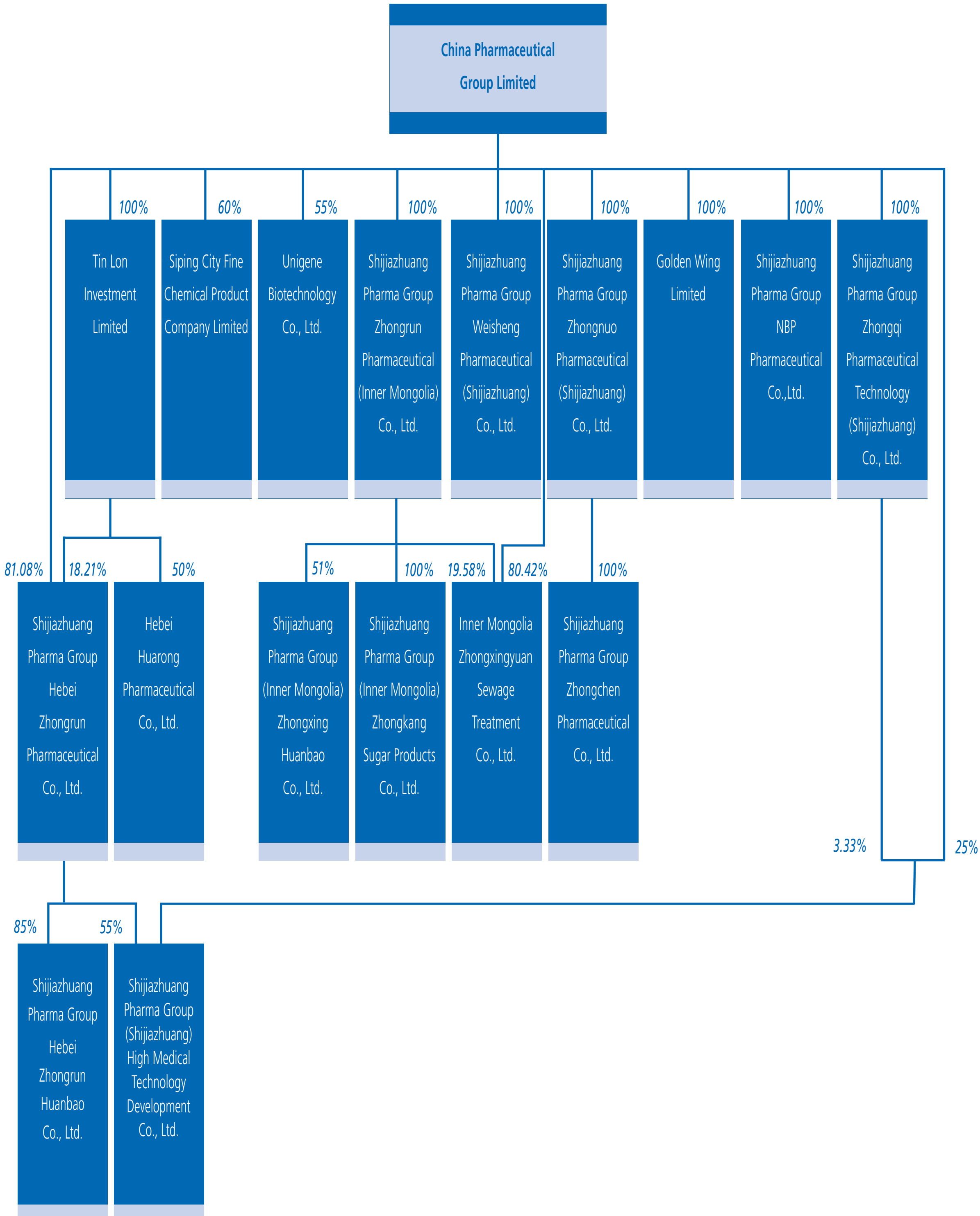
STOCK CODE

1093

WEBSITES

www.irasia.com/listco/hk/cpg/index.htm
www.cpg.hk

Corporate Structure



Chairman's Statement

RESULTS

Driven by the significant increase in the gross profit margin of the vitamin C business and the strong growth of the finished drug business, the Group reported an encouraging result for the year 2008. Revenue and profit attributable to shareholders for the year ended 31 December 2008 reached HK$6,830 million and HK$941 million, representing an increase of 37% and 97% respectively as compared to last year, the highest since our listing.

The Board of Directors recommends the payment of a final dividend of HK20 cents per share for the year ended 31 December 2008.

BUSINESS REVIEW AND OUTLOOK

Vitamin C Series

Product prices maintained an upward trend amid a tight market supply during the year. In 2008, the average selling price of vitamin C increased to US$8.84 per kg, which was significantly higher than US$4.60 of the previous year. Revenue for the year reached HK$2,157 million, representing an increase of 96% over previous year. Gross profit margin significantly increased from 38.0% in 2007 to 57.3% in the current year.

After years of market competition, manufacturers in the PRC have successfully established a dominant position in the global vitamin C market, with considerably stronger pricing power. As the industry leader, the Group not only possesses the world's largest production capacity, but also the competitive edge in the areas of technology, production cost, product range and customer network. The Group was granted the GMP certificate from Germany during the year, thereby becoming the only PRC vitamin C manufacturer that can enter the high-end pharmaceutical market in the European Union. This not only provides the Group with the opportunities for business expansion, but also further improves the profitability of this business segment.

The increase in market supply is expected to be limited in 2009. Product prices should be able to stay at high level will average selling price significantly higher than previous year. In order to cement customer relationship and ensure profitability, the Group has entered into long-term sales contracts for 2009 with certain customers.

Penicillin Series

In 2008, the demand for penicillin intermediate and bulk drug products continued to grow. Product prices rose sharply in the second quarter amid tightened market supply as the production of certain manufacturers in the PRC was affected by the environmental protection concern. However, with the outbreak of the financial turmoil in the second half of the year, some overseas customers took measures to reduce their inventory. As a result, overall sales slowed down and product prices declined.

The environmental protection facilities of the Group are up to standard and our production was unaffected by the environmental protection concern. Moreover, the production capacity of the Group's production base in Inner Mongolia has expanded last year and which enabled our market share to increase further during the year. Total sales volume of this series for the year increased by 36% with revenue growing by 16% to HK$1,871 million as compared to previous year. Gross profit margin decreased from 37.5% in 2007 to 23.3% in the current year.

Abundant market supply and capacity expansion of certain manufacturer are expected to continue to exert pressure on the selling price. Under this market environment, the Group will strengthen its control over production cost and actively explore overseas markets. During the year, the Group was granted the Certificate of Suitability for its amoxicillin bulk drug by the European Directorate for the Quality of Medicines & Healthcare. This greatly enhances the Group's competitiveness in overseas markets.

Cephalosporin Series

In 2008, the demand for cephalosporin intermediate and bulk drug products remained stable, but product prices were at low level due to excessive production capacity. Revenue for the year was HK$736 million, roughly the same as previous year. Gross profit margin decreased from 16.2% in 2007 to 9.6% in the current year.

In addition to strengthening the control of production cost, the Group will accelerate the development of new products. It is expected a number of cephalosporin bulk drug products will be launched in 2009. One of the workshops under construction for the new products will be applied for the U.S. Food and Drug Administration ("FDA") accreditation and it is expected that the FDA accreditation on-site inspection will take place in 2009.

Finished Drugs

The expanding medical insurance system and vast investment in the establishment of medical infrastructure in the PRC have made medical services more accessible to people residing in rural and urban areas, which directly drives growth in the demand for pharmaceutical products. The Group grasped the opportunities under this favourable market environment and actively expanded its market coverage. Revenue for the year reached HK$1,989 million, representing an increase of 33% over previous year. Among the major products, the revenue of amoxicillin capsules, ceftriaxone sodium for injection and penicillin sodium for injection increased by 32% to HK$831 million as compared to previous year. Gross profit margin of this business segment slightly increased from 25.7% in 2007 to 26.7% in the current year.

The opinions of the reform of the medical and healthcare system in the PRC has just been released while the government has been increasing its investment in the medical and healthcare system. As a major finished drug manufacturer in the PRC with a strong distribution network across urban and rural areas, the Group will benefit directly from the rapid growth of the PRC pharmaceutical market.

In order to achieve rapid growth in the finished drug business, apart from further expanding its sales force and stepping up end-users marketing efforts, the Group will also expedite the development of new products. Currently, 19 new products of different specifications of the Group have obtained the approval of the State Food and Drug Administration ("SFDA") of the PRC and ready to be launched in 2009, while 36 other products being under review by the SFDA, 6 others undergoing clinical trials and 49 others in the stage of research and development. These product development projects include products for the treatment of cardio-cerebrovascular diseases, type II diabetes, anti-tumor and antibiotics.

Acquisition costs would be lowered under the current economic turmoil. The Group will actively explore suitable acquisition opportunities with a view to expanding its product portfolio and product types. The Group would focus on acquisitions that will supplement finished drugs and new drugs that it lacks, adding growth potential to this business segment.

The finished drug business of the Group has an enormous growth potential. With the aim of developing the finished drug products into the leading business segment of the Group and further establishing as the leader in the PRC finished drug market, we will endeavour to re-position the sales and marketing strategies in 2009 to ensure this business to become the main growth driver.

FINANCIAL REVIEW

Liquidity and financial position

In 2008, the Group's operating activities generated a net cash inflow of HK$1,516,293,000. Capital expenditure in relation to the addition of production facilities amounted to HK$350,473,000. The Group's current ratio improved from 1.0 a year earlier to 1.5 as at 31 December 2008. Debtor turnover period (ratio of the total balance of trade receivables and bills receivables to sales, inclusive of value added tax for sales in the PRC) shortened from 62 days in the previous year to 49 days in the current year. Owing to a slowdown in sales of penicillin products, inventory turnover period (ratio of inventories balance to cost of sales) increased from 98 days in the previous year to 106 days in the current year.

The Group's financial position remained strong. As at 31 December 2008, bank balances and cash amounted to HK$1,123,110,000 and total borrowings amounted to HK$1,495,645,000 (comprising bank loans of HK$1,373,627,000 and loans from a related company of HK$122,018,000). Out of the total borrowings, HK$577,018,000 will be repayable within one year and the remaining HK$918,627,000 repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total borrowings net of bank balances and cash over shareholders' equity at the balance sheet date) decreased from 38% a year earlier to 8% as at 31 December 2008.

42% of the Group's borrowings are denominated in Hong Kong dollars or US dollars and the remaining 58% in Renminbi. The Group's revenues are denominated mainly either in Renminbi or in US dollars. The Group believed that its exposure to foreign currency risks is not significant, but we will monitor closely the currency movement.

Pledge of assets

As at 31 December 2008, bank deposits of HK$2,048,000 (2007: HK$751,000) were pledged to banks as security for the issuance of letters of credit.

Contingent liabilities

As disclosed in the press announcement of the Company dated 22 February 2005, the Company and one of its subsidiaries were named as, among others, defendants in a number of antitrust complaints filed in the United States. Up to the date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

Further information on the antitrust complaints is set out in note 41 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2008, the Group had about 9,890 employees, the majority of them were employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our appreciation to our shareholders for their support and to our staff for their contribution and diligence during the year.

By order of the Board
CAI DONGCHEN
Chairman

Hong Kong, 8 April 2009

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring a high standard of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting the confidence of investors. The Board will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2008 with certain deviations from code provision A.2.1 as set out in this report.

BOARD OF DIRECTORS

The Board currently comprises seven executive directors, one non-executive director and four independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting experience and expertise. The biographies of the directors are set out on pages 16 to 17 of the annual report.

The Board is responsible for establishing strategic direction, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group and approve business plans. Four regular Board meetings were held at approximately quarterly interval in 2008. Individual attendance of each director at the regular Board meetings, Audit Committee meetings and Remuneration Committee meeting during 2008 is set out below:

	Attendance/Number of Meetings		
Director	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors:			
Cai Dongchen *(Chairman)*	4/4		
Yue Jin	4/4		
Feng Zhenying	4/4		
Chak Kin Man	4/4		
Pan Weidong	4/4		
Zhao John Huan *(appointed on 18 December 2008)*	0/0		
Wang Shunlong *(appointed on 18 December 2008)*	0/0		
Ji Jianming *(resigned on 18 December 2008)*	3/4		

Director	Attendance/Number of Meetings Board	Audit Committee	Remuneration Committee
Executive Directors: *(continued)*			
Li Zhibiao *(resigned on 18 December 2008)*	4/4		
Zhang Zheng *(resigned on 18 December 2008)*	4/4		
Non-Executive Director:			
Lee Ka Sze, Carmelo	4/4	4/4	3/3
Independent Non-Executive Directors:			
Huo Zhenxing	4/4	4/4	3/3
Qi Moujia	4/4		
Guo Shichang	3/4		
Chan Siu Keung, Leonard	4/4	4/4	3/3

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, also assumes the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of two years from 1 January 2007 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

Such contracts have been renewed for a term of two years from 1 January 2009 as at the date of this report.

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies, approving the salary, bonus and other benefits of executive directors and recommending to the Board remuneration of non-executive directors. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

Three meetings were held in 2008. Based on its review of the operating results of the Group, individual performance and comparable market statistics, the committee has considered and approved the remuneration of the executive directors of the Company at the meetings.

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board will review the structure, size and composition of the Board from time to time and make recommendation on the appointment of directors.

Due to a restructuring of the Board, Mr. Ji Jianming, Mr. Li Zhibiao and Mr. Zhang Zheng resigned as executive directors of the Company; and Mr. Zhao John Huan and Mr. Wang Shunlong have been appointed by the Board as executive directors of the Company in December 2008.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the year of 2008.

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

Four meetings were held in 2008. At the meetings, the committee considered the fees charged by the auditor, reviewed the quarterly, half-yearly and annual financial statements, reviewed the auditor's management letter and management response and reviewed the annual budget of the Group.

Based on the review and discussion at the meetings, the committee recommended to the Board to approve the quarterly, half-yearly and annual results of the Group and to adopt the measures to improve the internal control system as suggested by the auditor in the management letters.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

AUDITOR'S REMUNERATION

During the year, the auditor of the Company charged HK$1,800,000 for audit services and HK$470,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and certain agreed-upon procedures.

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the financial statements of the Company and the Group. The reporting responsibilities of the auditors are set out in the independent auditor's report on page 22 to 23 of the annual report.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedures for voting by poll have been included in the circular of the Company accompanying notice convening general meeting and have been read out by the chairman at the general meeting held in 2008.

At the 2008 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors. The respective chairman of the Board, Audit Committee and Remuneration Committee attended the 2008 annual general meeting to answer questions raised by shareholders.

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and jointly controlled entity are set out in notes 43 and 21 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total sales and purchases for the year, respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 24 of the annual report.

The Board of Directors recommends the payment of a final dividend of HK20 cents per share for the year ended 31 December 2008, representing a distribution of HK$306,992,000. Subject to shareholders' approval of the final dividend at the annual general meeting on 29 May 2009, payment of the final dividend will be made on 16 June 2009 to shareholders whose names appear on the register of members of the Company on 29 May 2009.

The register of members of the Company will be closed from Monday, 25 May 2009 to Friday, 29 May 2009, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 22 May 2009.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2008 comprised the retained profits of HK$671,579,000 (2007: HK$258,055,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to upgrade its production facilities. Details of these and movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and the share option scheme of the Company are set out in notes 32 and 33 to the consolidated financial statements, respectively.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cai Dongchen, Chairman	
Yue Jin	
Feng Zhenying	
Chak Kin Man	
Pan Weidong	
Zhao John Huan	*(appointed on 18 December 2008)*
Wang Shunlong	*(appointed on 18 December 2008)*
Ji Jianming	*(resigned on 18 December 2008)*
Li Zhibiao	*(resigned on 18 December 2008)*
Zhang Zheng	*(resigned on 18 December 2008)*

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing
Qi Moujia
Guo Shichang
Chan Siu Keung, Leonard

In accordance with Article 92 of the Company's Article of Association, Messrs. Zhao John Huan and Wang Shunlong retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Pan Weidong, Lee Ka Sze, Carmelo and Chan Siu Keung, Leonard retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the non-executive director and independent non-executive directors of the Company has entered into a service contract for a term of two years from 1 January 2007. Such contract has been renewed for a term of two years from 1 January 2009 as at the date of this report.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 55, Chairman of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai graduated from Hebei Finance College in the People's Republic of China (the "PRC") and has over thirty years of technical and management experience in the pharmaceutical industry.

YUE Jin

Mr. Yue, aged 45, was appointed as an executive director of the Company in 2001. He graduated from Hebei University in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

FENG Zhenying

Mr. Feng, aged 53, was appointed as an executive director of the Company in 2003. He graduated from Hebei Chemical College in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 43, was appointed as an executive director of the Company in 2005. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor of social sciences degree from the University of Hong Kong and has over nineteen years of experience in auditing and financial management.

PAN Weidong

Mr. Pan, aged 39, was appointed as an executive director of the Company in 2006. He graduated from Shijiazhuang Post College in the PRC and has over seventeen years of experience in financial management and accounting.

ZHAO John, Huan

Mr. Zhao, aged 46, was appointed as an executive director of the Company in 2008. He holds a MBA degree from Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. Mr. Zhao has extensive experience in senior management positions at several companies in the United States and the PRC. Mr. Zhao is also a vice president of Legend Holdings Limited ("Legend"), a director of Massive Giant Group Limited ("Massive Giant") and the CEO of Hony Capital Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

WANG Shunlong

Mr. Wang Shunlong, aged 44, was appointed as an executive director of the Company in 2008. He holds a doctorate degree in engineering from Tsinghua University and has spent three years as a visiting researcher at Eindhoven University of Technology in the Netherlands. Mr. Wang has extensive experience in corporate management and investment planning. Mr. Wang is also a managing director of Hony Capital Limited and a director of Massive Giant.

LEE Ka Sze, Carmelo

Mr. Lee, aged 48, was appointed as an independent non-executive director of the Company in 1996 and re-designated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee of the Company. He holds a Bachelor of Laws degree from the University of Hong Kong. He is a solicitor by profession and is a partner of a law firm in Hong Kong.

HUO Zhenxing

Mr. Huo, aged 73, was appointed as an independent non-executive director of the Company in 1994. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 76, was appointed as an independent non-executive director of the Company in 1996. He was the former director of the State Drug Administration of China (the "SDA", now known as the State Food and Drug Administration of China). He was the deputy chairman and chairman of the SDA in 1978 and 1982-1994, respectively.

GUO Shichang

Mr. Guo, aged 67, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government in the PRC from 1993 to 2002.

CHAN Siu Keung, Leonard

Mr. Chan, aged 51, was appointed as an independent non-executive director of the Company in 2004. He is also a member of the Audit Committee and the Remuneration Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no contracts of significance to which the Company, its holding companies, fellow subsidiaries or 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' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions:

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2008.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 33 to the consolidated financial statements, at no time during the year was the Company, its holding companies, fellow subsidiaries and subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Massive Giant	Beneficial owner	783,482,393	51.04%
Legend	Interest to an agreement	783,482,393 *(note i)*	51.04%
Employees' Shareholding Society of Legend ("Employees' Society")	Interest held by a controlled corporation	783,482,393 *(note ii)*	51.04%

Notes:

(i) Legend and Massive Giant are parties to an agreement to which Section 317(1)(a) of the SFO applies. Legend is deemed to be interested in the 783,482,393 shares of the Company held by Massive Giant.

(ii) Employees' Society owns 35% interest in Legend. Employees' Society is deemed to be interested in the 783,482,393 shares of the Company held by Massive Giant.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at 31 December 2008.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 26 to the consolidated financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

CONNECTED TRANSACTIONS *(continued)*

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased certain of its own shares through the Stock Exchange, details of which are set out in note 32 to the consolidated financial statements. The directors considered that the repurchases would enhance the shareholders' value.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Pursuant to two bank loan agreements, it will be an event of default under each of the loan agreements if (i) Hony Capital Fund III, L.P. ("Hony Capital") ceases to own (directly or indirectly) at least 35% interest in the Company; (ii) Legend ceases to own (directly or indirectly) at least 34.48% interest in Hony Capital; or (iii) any replacement or addition (in terms of head count) of executive directors of the Company exceeds one third of the existing executive directors. The outstanding principal of these two bank loans at 31 December 2008 amounted to HK$500,000,000 and the last instalment repayment is due in December 2011.

Pursuant to another bank loan agreement, it will be an event of default if (i) Hony Capital ceases to own (directly or indirectly) at least 35% interest in the Company or ceases to be (directly or indirectly) the single largest shareholder of the Company; (ii) Legend ceases to own (directly or indirectly) at least 34.48% interest in Hony Capital or ceases to hold the single largest value of fund in Hony Capital; or (iii) Hony Capital fails to vest in Legend the ultimate control in relation to all decisions exercisable (directly or indirectly) by Massive Giant or Hony Capital to the extent they relate to (a) the management of Massive Giant's or Hony Capital's direct or indirect equity stake in the Company; (b) Massive Giant's or Hony Capital's direct or indirect equity stake in the Company and any disposal of investment decisions in relation thereto; and (c) all other matters relating to the general management and affairs of the Company. The outstanding principal of the bank loan at 31 December 2008 amounted to HK$120,900,000 and the last instalment repayment is due in November 2011.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.18 of the Listing Rules.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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 Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 33 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$6,385,000.

POST BALANCE SHEET EVENT

Details of the significant event occurring after the balance sheet date are set out in note 44 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
CAI DONGCHEN
Chairman

8 April 2009

Deloitte.
德勤

TO THE MEMBERS OF CHINA PHARMACEUTICAL GROUP LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 86, 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 CONSOLIDATED 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 Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated 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, in accordance with section 141 of the Hong Kong Companies Ordinance 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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 Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	7	**6,829,995**	4,986,059
Cost of sales		**(4,548,661)**	(3,449,641)
Gross profit		**2,281,334**	1,536,418
Other income		**42,834**	27,278
Selling and distribution expenses		**(470,787)**	(379,203)
Administrative expenses		**(514,493)**	(471,280)
Other expenses		**(120,801)**	(74,822)
Operating profit		**1,218,087**	638,391
Share of results of a jointly controlled entity		**1,442**	(2,683)
Share of results of an associate		**1,362**	—
Gain on termination of a derivative financial instrument		**6,851**	—
Change in fair value of a derivative financial instrument		**—**	(551)
Impairment loss on an available-for-sale investment		**(10,362)**	—
Finance costs	8	**(109,367)**	(112,809)
Profit before tax	9	**1,108,013**	522,348
Income tax expense	10	**(160,983)**	(45,569)
Profit for the year		**947,030**	476,779
Attributable to:			
Equity holders of the Company		**940,560**	477,388
Minority interests		**6,470**	(609)
		947,030	476,779
Proposed final dividend	13	**306,992**	76,906
		HK cents	*HK cents*
Earnings per share — Basic	14	**61.16**	31.04

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	15	**3,781,309**	3,648,284
Prepaid lease payments	16	**198,524**	174,544
Intangible assets	17	**89,333**	58,876
Goodwill	18	**106,753**	100,718
Deposit paid for investment in an associate	20	**—**	21,277
Interest in a jointly controlled entity	21	**22,941**	20,146
Available-for-sale investment	22	**5,307**	—
Pledged bank deposits	23	**2,048**	751
		4,206,215	4,024,596
Current assets			
Inventories	24	**1,324,711**	927,867
Trade and other receivables	25	**908,094**	768,828
Bills receivables	25	**297,382**	281,586
Prepaid lease payments	16	**6,149**	5,384
Tax recoverable		**3,246**	—
Trade receivables due from a connected company	26	**23,063**	—
Amount due from a jointly controlled entity	26	**13,484**	14,392
Bank balances and cash	23	**1,121,062**	436,092
		3,697,191	2,434,149
Current liabilities			
Trade and other payables	27	**1,403,365**	1,127,786
Bills payables	27	**253,409**	169,537
Trade payables due to a related company	26	**17,711**	25,820
Amounts due to related companies	26	**14,375**	14,978
Tax liabilities		**120,216**	47,103
Bank loans	28	**568,636**	976,043
Loans from a related company/an intermediate holding company	29	**8,382**	9,404
Derivative financial instrument	30	**—**	551
		2,386,094	2,371,222
Net current assets		**1,311,097**	62,927
Total assets less current liabilities		**5,517,312**	4,087,523

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Bank loans	28	**804,991**	716,383
Loan from a related company	29	**113,636**	—
Deferred tax liabilities	31	**15,490**	—
		934,117	716,383
Net assets		**4,583,195**	3,371,140
Capital and reserves			
Share capital	32	**153,496**	153,812
Reserves		**4,343,882**	3,198,486
Equity attributable to equity holders of the Company		**4,497,378**	3,352,298
Minority interests		**85,817**	18,842
Total equity		**4,583,195**	3,371,140

The consolidated financial statements from pages 24 to 86 were approved and authorised for issue by the board of directors on 8 April 2009 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	15	**601**	230
Investments in subsidiaries	34	**1,506,033**	1,320,766
		1,506,634	1,320,996
Current assets			
Other receivables		**8,193**	6,356
Amounts due from subsidiaries	35	**1,008,065**	844,107
Bank balances and cash	23	**77,963**	26,172
		1,094,221	876,635
Current liabilities			
Other payables		**37,837**	16,486
Bank loans	28	**100,000**	292,000
Derivative financial instrument	30	**—**	551
		137,837	309,037
Net current assets		**956,384**	567,598
Total assets less current liabilities		**2,463,018**	1,888,594
Non-current liability			
Bank loans	28	**520,900**	360,000
Net assets		**1,942,118**	1,528,594
Capital and reserves			
Share capital	32	**153,496**	153,812
Reserves	36	**1,788,622**	1,374,782
Total equity		**1,942,118**	1,528,594

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital contribution HK$'000	Goodwill reserve HK$'000	Translation reserve HK$'000 (note i)	Non-distributable reserves HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	153,812	1,116,727	–	1,599	(167,254)	212,028	382,766	941,963	2,641,641	9,193	2,650,834
Exchange differences arising on translation to presentation currency recognised directly in equity	–	–	–	–	–	233,269	–	–	233,269	1,128	234,397
Profit (loss) for the year	–	–	–	–	–	–	–	477,388	477,388	(609)	476,779
Total recognised income and expense for the year	–	–	–	–	–	233,269	–	477,388	710,657	519	711,176
Transfer arising on impairment of goodwill in respect of a jointly controlled entity	–	–	–	–	7,124	–	–	(7,124)	–	–	–
Transfers	–	–	–	–	–	–	170,844	(170,844)	–	–	–
Capital contribution by the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	5,000	5,000
Acquisition of subsidiaries *(note 37)*	–	–	–	–	–	–	–	–	–	4,556	4,556
Dividend paid to the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	(426)	(426)
At 31 December 2007	**153,812**	**1,116,727**	**–**	**1,599**	**(160,130)**	**445,297**	**553,610**	**1,241,383**	**3,352,298**	**18,842**	**3,371,140**
Exchange differences arising on translation to presentation currency recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**287,848**	**–**	**–**	**287,848**	**1,239**	**289,087**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**940,560**	**940,560**	**6,470**	**947,030**
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**–**	**287,848**	**–**	**940,560**	**1,228,408**	**7,709**	**1,236,117**
Acquisition of additional interest in a subsidiary *(note ii)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,444)**	**(1,444)**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**	**34,592**	**(34,592)**	**–**	**–**	**–**
Final dividend for the year ended 31 December 2007	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(76,906)**	**(76,906)**	**–**	**(76,906)**
Shares repurchased	**(316)**	**–**	**316**	**–**	**–**	**–**	**–**	**(6,422)**	**(6,422)**	**–**	**(6,422)**
Capital contribution by the minority shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17,375**	**17,375**
Acquisition of a subsidiary *(note 37)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45,310**	**45,310**
Dividend paid to the minority shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,975)**	**(1,975)**
At 31 December 2008	**153,496**	**1,116,727**	**316**	**1,599**	**(160,130)**	**733,145**	**588,202**	**2,064,023**	**4,497,378**	**85,817**	**4,583,195**

Notes:

(i) The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and jointly controlled entity in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(ii) During the year ended 31 December 2008, the Group additionally acquired 19.58% equity interest in a non-wholly owned subsidiary, Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd., which then became a wholly-owned subsidiary of the Company.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**1,108,013**	522,348
Adjustments for:			
Amortisation of intangible assets		**23,482**	28,204
Amortisation of prepaid lease payments		**5,736**	5,384
Change in fair value of a derivative financial instrument		**—**	551
Depreciation of property, plant and equipment		**442,018**	392,795
Finance costs		**109,367**	112,809
Gain on termination of a derivative financial instrument		**(6,851)**	—
Interest income		**(6,743)**	(3,489)
Impairment loss on trade receivables		**2,000**	—
Impairment loss on an available-for-sale investment		**10,362**	—
Loss on disposal/write-off of property, plant and equipment		**66,045**	48,549
Share of results of a jointly controlled entity		**(1,442)**	2,683
Share of results of an associate		**(1,362)**	—
Operating cash flows before movements in working capital		**1,750,625**	1,109,834
Increase in inventories		**(380,817)**	(213,678)
Increase in trade and other receivables		**(139,099)**	(178,497)
Decrease (increase) in bills receivables		**10,680**	(183,085)
Increase in trade receivables due from a related company		**—**	(5,854)
Decrease in trade receivables due from a connected company		**17,459**	—
Decrease (increase) in amount due from a jointly controlled entity		**908**	(619)
Increase in trade and other payables		**263,018**	443,699
Increase (decrease) in bills payables		**83,872**	(53,581)
(Decrease) increase in trade payables due to a related company		**(8,109)**	14,460
Decrease in amounts due to related companies		**(603)**	(16,918)
Cash generated from operations		**1,597,934**	915,761
PRC Enterprise Income Tax paid		**(112,671)**	(32,149)
PRC Enterprise Income Tax refunded		**31,030**	15,882
NET CASH FROM OPERATING ACTIVITIES		**1,516,293**	899,494

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(362,381)**	(602,328)
Purchase of intangible assets		**(50,487)**	(35,413)
Acquisition of additional interest in an associate		**(22,250)**	—
Purchase of available-for-sale investment		**(15,669)**	—
Acquisition of subsidiaries	37	**(11,667)**	(141,954)
Acquisition of additional interest in a subsidiary		**(3,790)**	—
(Increase) decrease in pledged bank deposits		**(1,297)**	3,353
Proceeds on disposal of property, plant and equipment		**13,113**	3,350
Interest received		**6,743**	3,489
Proceed on termination of a derivative financial instrument		**6,300**	—
Deposit paid for investment in an associate		**—**	(21,277)
Prepayment of land leases		**—**	(2,979)
NET CASH USED IN INVESTING ACTIVITIES		**(441,385)**	(793,759)
FINANCING ACTIVITIES			
Repayment of bank loans		**(1,348,091)**	(912,601)
Interest paid		**(109,327)**	(112,459)
Dividend paid		**(76,906)**	—
Shares repurchased		**(6,422)**	—
Dividend paid to the minority shareholder of a subsidiary		**(1,975)**	(426)
Repayment of loans from a related company/an intermediate holding company		**(1,062)**	(50,439)
New bank loans raised		**996,668**	1,009,149
Loan raised from a related company		**113,636**	126,000
Capital contribution by the minority shareholder of a subsidiary		**17,375**	5,000
Repayment of loans from related companies		**—**	(146,000)
NET CASH USED IN FINANCING ACTIVITIES		**(416,104)**	(81,776)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**658,804**	23,959
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**436,092**	387,405
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**26,166**	24,728
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,121,062**	436,092

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Prior to 26 June 2007, Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), a limited liability company established in the People's Republic of China (the "PRC"), was the immediate and ultimate holding company of the Company and owned approximately 50.93% of the issued share capital of the Company. On 26 June 2007, Legend Holdings Limited ("Legend"), an investment holding company established in the PRC, acquired the entire interest of SPG from State-owned Assets Supervision and Administration Committee of Shijiazhuang Municipal People's Government and became the ultimate holding company of the Company with effect on that date. SPG, together with the companies under its control, other than the Company and its subsidiaries (collectively referred to as the "Group"), will hereinafter be referred to as the "SPG Group".

On 7 December 2007, China Charmaine Pharmaceutical Company Limited ("China Charmaine"), a wholly-owned subsidiary of SPG and a limited liability company incorporated in Hong Kong, became the immediate holding company of the Company as a result of the transfer of the entire interest in the Company held by SPG to China Charmaine.

As disclosed in an announcement of the Company dated 19 May 2008, China Charmaine has transferred its entire 50.93% interest in the Company to Massive Giant Group Limited ("Massive Giant"), a limited liability company incorporated in the British Virgin Islands, on the date of announcement (the "Transfer"). Together with the 0.01% direct interest in the Company held by Massive Giant previously, Massive Giant holds in aggregate approximately 50.94% of the issued share capital of the Company immediately following the Transfer. By virtue of an agreement, details of which are disclosed in the circular jointly issued by the Company, Legend and Massive Giant on 19 July 2007, Legend is entitled to exercise or control the exercise of the shares held by Massive Giant in the Company. Therefore, Legend is a controlling shareholder of the Company. The SPG Group and China Charmaine remained as related and connected companies of the Group on 31 December 2008 while Massive Giant became the immediate holding company of the Group on 19 May 2008.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollar ("HKD") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)— Int 11	HKFRS 2: Group and Treasury Share Transactions
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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[7]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods ending on or after 30 June 2009

[5] Effective for annual periods beginning on or after 1 July 2008

[6] Effective for annual periods beginning on or after 1 October 2008

[7] Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Acquisition of additional interest in a subsidiary

Additional interest in a subsidiary is measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the net assets acquired is accounted for as goodwill. Any excess of the net assets acquired over the consideration is recognised immediately in profit or loss.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

Goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity prior to 1 January 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit ("CGU") to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on an acquisition of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the CGU to which the goodwill relates may be impaired (see the accounting policy below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for the goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Prepaid lease payments

Prepaid lease payments which represent up-front payments to acquire leasehold land interests are stated at cost and amortised over the period of the relevant lease on a straight-line basis.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company balance sheet at cost less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associate.

Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturer has joint control over the economic activity of the entity is referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale equity financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including pledged bank deposits, trade and other receivables, bills receivables, trade receivables due from a connected company, amount due from a jointly controlled entity and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale equity financial asset

At each balance sheet date subsequent to initial recognition, available-for-sale equity financial asset is measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the general credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investment will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities and derivative financial instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, bills payables, trade payables due to a related company, amounts due to related companies, bank loans and loans from a related company/an intermediate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of equity instruments

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. The amount equal to the share capital is transferred to the capital redemption reserve. No gain or loss is recognised in the consolidated income statement on the purchase or cancellation of the Company's own equity instruments.

Derivative financial instrument

Derivative is initially recognised at fair value at the date a derivative contract is entered into and is subsequently remeasured to its fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition *(continued)*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets, other than goodwill (see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when services are rendered.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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

Government grants

Government grants are not recognised until there is reasonably assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expenses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Operating lease

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interest in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax credits

Tax credits are recognised in the consolidated income statement only when the Group has met the underlying requirements or received the tax refund from the relevant tax authority.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Group (i.e. HKD) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at the balance sheet date was HK$266,883,000, of which HK$160,130,000 was included in the goodwill reserve. At the balance sheet date, the directors assessed the need to provide impairment loss on the goodwill and the carrying amount of the goodwill was sustained by the impairment test, details of which are provided in note 19.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in notes 28 and 29 net of cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	**2,236,352**	1,457,154	**1,086,071**	871,057
Available-for-sale investment	**5,307**	—	**—**	—
Financial liabilities				
Amortised cost	**3,021,316**	2,829,547	**620,900**	652,000
Derivative financial instrument	**—**	551	**—**	551

6b. Financial risk management objectives and policies

The major financial instruments of the Group and the Company include pledged bank deposits, trade and other receivables, bills receivables, trade receivables due from a connected company, amount due from a jointly controlled entity, amounts due from subsidiaries, bank balances and cash, trade and other payables, bills payables, trade payables due to a related company, amounts due to related companies, bank loans and loans from a related company/an intermediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States dollar ("USD") and the Company has raised HKD bank loans and USD bank loans, which expose the Group and the Company to foreign currency risk.

The Group and the Company currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments when the need arises.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date that are considered significant by the management are as follows:

	THE GROUP				THE COMPANY			
	Liabilities		Assets		Liabilities		Assets	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HKD	**500,000**	652,000	**83,404**	66,618	**500,000**	652,000	**77,291**	24,541
USD	**120,900**	—	**281,650**	242,464	**120,900**	—	**601**	1,562

Sensitivity analysis

The following table details the sensitivity of the Group and the Company to a 5% increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit before tax where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before tax and the balances below would be negative.

	THE GROUP						THE COMPANY					
	HKD Impact			USD Impact			HKD Impact			USD Impact		
	2008	2007		**2008**	2007		**2008**	2007		**2008**	2007	
	HK$'000	*HK$'000*		***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*	
Profit before tax	**19,838**	27,875	*(i)*	**(7,655)**	(11,546)	*(ii)*	**20,129**	29,879	*(i)*	**5,729**	(74)	*(ii)*

(i) This is mainly attributable to the exposure outstanding on HKD bank balances and bank loans at year end.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances and receivables at year end.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate bank loans and loans from a related company/an intermediate holding company (see notes 28 and 29 for details of these loans), which are raised from the banks and a related company/an intermediate holding company by the subsidiaries in the PRC. In relation to these fixed-rate loans, the Group aims to keep loans at rates that are comparable to those in the market. In order to achieve this result, the Group negotiated with the banks and entered into various revolving loans such that the interest rates associated with the loans are more or less variable. In this regard, the directors of the Company consider that the Group's fair value interest rate risk is minimised.

The Group and the Company is also exposed to cash flow interest rate risk primarily in relation to the floating-rate bank loans (see note 28 for details of these loans). It is the policy of the Group and the Company to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances also expose the Group and the Company to cash flow interest rate risk due to the fluctuation of the prevailing interest rates.

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group and the Company is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR") arising from the Group's HKD loans and USD loans raised by the Company, respectively.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank loans. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group and the Company's profit before tax for the year ended 31 December 2008 would both decrease/increase by HK$3,105,000 (2007: decrease/increase by HK$3,260,000).

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(iii) Other price risk

The Group is exposed to other price risk through its available-for-sale investment as at 31 December 2008. The directors of the Company are of the opinion that such investment is held for long-term strategic purpose and management would take necessary action to mitigate the risk underlined should the needs arise. In addition, the directors consider the effect of changes in equity price of the Group's available-for-sale investment is insignificant and therefore, no sensitivity analysis is presented.

Credit risk

As at 31 December 2008, the maximum exposure to credit risk by the Group and the Company which will cause a financial loss due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the recognised financial assets as stated in the balance sheets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debts on a collective basis at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk on trade receivables, bills receivables, trade receivables due from a connected company, amount due from a jointly controlled entity and bank balances and cash by geographical location is mainly in the PRC. The Group and the Company has no other significant concentration of credit risk, with exposure spread over a number of counterparties.

The credit risk on liquid funds of the Group and the Company is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and the Company and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenants.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilised bank loan facilities of HK$406,873,000 (2007: HK$304,681,000). Details of which are set out in note 28.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principle cash flows.

2008

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables		413,288	420,694	406,194	—	1,240,176	1,240,176
Bills payables		51,136	71,591	130,682	—	253,409	253,409
Trade payables due to a related company		17,711	—	—	—	17,711	17,711
Amounts due to related companies		14,375	—	—	—	14,375	14,375
Bank loans							
— fixed-rate	7.75	—	18,447	485,513	305,364	809,324	752,727
— floating-rate	3.25	—	51,625	51,625	537,829	641,079	620,900
Loans from a related company							
— current		8,382	—	—	—	8,382	8,382
— non-current	7.50	—	—	—	122,159	122,159	113,636
		504,892	562,357	1,074,014	965,352	3,106,615	3,021,316

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

2007

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables		234,391	371,047	311,944	—	917,382	917,382
Bills payables		40,813	22,341	106,383	—	169,537	169,537
Trade payables due to a related company		25,820	—	—	—	25,820	25,820
Amounts due to related companies		14,978	—	—	—	14,978	14,978
Bank loans							
— fixed-rate	6.70	56,727	—	672,426	400,930	1,130,083	1,040,426
— floating-rate	4.41	—	—	305,040	375,727	680,767	652,000
Loans from an intermediate holding company	3.78	—	—	9,574	—	9,574	9,404
		372,729	393,388	1,405,367	776,657	2,948,141	2,829,547

At both balance sheet dates, the Company's non-derivative financial liabilities represented the unsecured floating-rate bank loans of the Group, of which the remaining contractual maturity has been disclosed above. Therefore, no further analysis is presented.

6c. Fair value

The fair value of derivative financial instrument is determined with reference to the valuation provided by the relevant financial institution.

The fair value of available-for-sale investment traded on an active market is determined with reference to quoted market bid price.

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments.

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

7. REVENUE AND SEGMENT INFORMATION

	2008 HK$'000	2007 HK$'000
Sale of goods	6,819,852	4,985,795
Service income	10,143	264
	6,829,995	4,986,059

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

Business segments

The Group reports its primary segment information by products, namely intermediates and bulk drugs (including vitamin C series, penicillin series and cephalosporin series), finished drugs and others. Segment information about these products is presented below:

For the year ended 31 December 2008:

	Intermediates and Bulk Drugs						
	Vitamin C series HK$'000	Penicillin series HK$'000	Cephalosporin series HK$'000	Finished Drugs HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE							
External sales	2,156,731	1,870,802	736,097	1,988,677	77,688	—	6,829,995
Inter-segment sales	2,338	512,696	209,221	—	6,472	(730,727)	—
TOTAL REVENUE	2,159,069	2,383,498	945,318	1,988,677	84,160	(730,727)	6,829,995
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	977,500	223,949	1,927	124,097	(3,213)		1,324,260
Unallocated income							6,743
Unallocated expenses							(112,916)
Operating profit							1,218,087
Share of results of a jointly controlled entity					1,442		1,442
Share of results of an associate			1,362				1,362
Gain on termination of a derivative financial instrument							6,851
Impairment loss on an available-for-sale investment							(10,362)
Finance costs							(109,367)
Profit before tax							1,108,013
Income tax expense							(160,983)
Profit for the year							947,030

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2008: *(continued)*

Other Information

	Intermediates and Bulk Drugs						
	Vitamin C series	Penicillin series	Cephalosporin series	Finished Drugs	Others	Unallocated corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	26,968	127,803	218,176	48,320	61,101	726	483,094
Depreciation and amortisation	134,216	182,493	104,517	44,598	5,143	269	471,236
Goodwill	—	2,346	624	—	—	—	2,970

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At 31 December 2008:

	Intermediates and Bulk Drugs					
	Vitamin C series	Penicillin series	Cephalosporin series	Finished Drugs	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,386,648	2,733,880	1,252,745	1,186,362	187,728	6,747,363
Interest in a jointly controlled entity					22,941	22,941
Unallocated corporate assets						1,133,102
Consolidated total assets						7,903,406
LIABILITIES						
Segment liabilities	275,767	576,203	259,247	504,977	34,870	1,651,064
Unallocated corporate liabilities						1,669,147
Consolidated total liabilities						3,320,211

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2007:

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	Penicillin series *HK$'000*	Cephalosporin series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	1,102,142	1,617,030	767,708	1,497,734	1,445	—	4,986,059
Inter-segment sales	803	410,999	43,695	—	19,069	(474,566)	—
TOTAL REVENUE	1,102,945	2,028,029	811,403	1,497,734	20,514	(474,566)	4,986,059
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	252,727	396,726	38,261	(15,824)	(9,454)		662,436
Unallocated income							3,489
Unallocated expenses							(27,534)
Operating profit							638,391
Share of results of a jointly controlled entity					(2,683)		(2,683)
Change in fair value of a derivative financial instrument							(551)
Finance costs							(112,809)
Profit before tax							522,348
Income tax expense							(45,569)
Profit for the year							476,779

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2007: *(continued)*

Other Information

	Intermediates and Bulk Drugs						
	Vitamin C series	Penicillin series	Cephalosporin series	Finished Drugs	Others	Unallocated corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	58,834	518,157	70,770	33,951	5,079	1	686,792
Depreciation and amortisation	120,740	149,588	112,391	41,114	2,105	445	426,383
Goodwill	—	44,954	—	—	—	—	44,954

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At 31 December 2007:

	Intermediates and Bulk Drugs					
	Vitamin C series	Penicillin series	Cephalosporin series	Finished Drugs	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,379,975	2,439,503	1,107,254	1,002,841	66,348	5,995,921
Interest in a jointly controlled entity					20,146	20,146
Unallocated corporate assets						442,678
Consolidated total assets						6,458,745
LIABILITIES						
Segment liabilities	170,620	487,910	172,580	461,429	29,096	1,321,635
Unallocated corporate liabilities						1,765,970
Consolidated total liabilities						3,087,605

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical segments

The following is an analysis of the Group's revenue by geographical market based on geographical location of customers for the year:

	2008	2007
	HK$'000	*HK$'000*
The PRC	**4,401,791**	3,437,359
Asia other than the PRC	**1,116,506**	848,862
Europe	**593,684**	302,227
Americas	**641,922**	344,553
Others	**76,092**	53,058
	6,829,995	4,986,059

Analysis of carrying amounts of segment assets and capital additions are not presented as over 90% of the amounts involved are located in the PRC.

8. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on:		
— bank loans wholly repayable within five years	**89,630**	92,141
— loan from a related company/an intermediate holding company wholly repayable within five years *(note 29)*	**4,024**	861
— loans from related companies wholly repayable within five years *(note 26)*	**—**	3,286
Bank loan arrangement fees	**4,659**	2,286
Discount on bills receivables discounted without recourse	**11,014**	13,885
Imputed interest expenses on interest-free loans from a related company/an intermediate holding company *(note 29)*	**40**	350
	109,367	112,809

9. PROFIT BEFORE TAX

	2008 HK$'000	2007 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including those of directors	**492,117**	371,906
Contribution to retirement benefit schemes, including those of directors	**57,819**	53,570
Total staff costs	**549,936**	425,476
Amortisation of intangible assets (included in cost of sales)	**23,482**	28,204
Amortisation of prepaid lease payments	**5,736**	5,384
Depreciation of property, plant and equipment	**442,018**	392,795
Total depreciation and amortisation	**471,236**	426,383
Auditor's remuneration	**1,800**	1,800
Impairment loss on trade receivables (included in administrative expenses)	**2,000**	—
Interest income	**(6,743)**	(3,489)
Loss on disposal/write-off of property, plant and equipment (included in other expenses)	**66,045**	48,549
Net foreign exchange losses	**25,964**	10,574
Research and development expenses (included in other expenses)	**43,674**	17,275

Note: For the years ended 31 December 2007 and 2008, cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated income statement.

10. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
The tax charge comprises:		
PRC Enterprise Income Tax		
— current year	**165,831**	60,169
— (over)underprovision in prior years	**(449)**	148
— tax credits/refunds	**(19,889)**	(14,748)
	145,493	45,569
Deferred taxation *(note 31)*	**15,490**	—
	160,983	45,569

10. INCOME TAX EXPENSE *(continued)*

No Hong Kong Profits Tax is payable by the Company nor its subsidiaries incorporated in Hong Kong since they either had no assessable profit or incurred tax losses for both years. Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdiction.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption and relief from PRC Enterprise Income Tax starting from their first profit-making years. In addition, pursuant to approvals granted by the relevant tax authority, certain subsidiaries of the Company were granted tax credits/refunds, which were mainly derived from the following activities:

a. Tax refunds were received on the basis that certain subsidiaries of the Company in the PRC have, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to certain PRC subsidiaries set up in previous years.

b. Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company in the PRC. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current and future tax charges of the relevant subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authority.

The tax charge for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

On 16 March 2007, the PRC promulgated the Law of the PRC (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. In accordance with the New Law and Implementation Regulations, the tax rate of certain subsidiaries has changed to 25% starting from 1 January 2008. Those subsidiaries which are under the tax exemption and relief as mentioned above will continue to be entitled to the exemption and relief from PRC Enterprise Income Tax based on the new tax rate of 25% or the concessionary tax rate in the relevant special zone in the PRC during the concessionary period ending in 2010.

During the current year, pursuant to the approvals by the relevant tax authorities, certain subsidiaries of the Company are qualified as advanced technology enterprises in Hebei Province, the PRC for a period of 3 years from 2008 to 2010. The applicable tax rate for these enterprises during this period is 15%.

10. INCOME TAX EXPENSE *(continued)*

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2008 **HK$'000**	2007 HK$'000
Profit before tax	**1,108,013**	522,348
Tax at the domestic income tax rate of 25% (2007: 27%)	**277,003**	141,034
Tax effect of income not taxable for tax purpose	**(9,349)**	(1,369)
Tax effect of expenses not deductible for tax purpose	**25,347**	30,037
Tax effect of share of results of a jointly controlled entity	**(360)**	724
Tax effect of share of results of an associate	**(341)**	—
Tax effect of tax losses not recognised	**6,892**	23,308
Utilisation of tax losses previously not recognised	**(15,280)**	(23,260)
Effect of tax exemption and relief granted to PRC subsidiaries	**(118,081)**	(110,305)
Tax credits/refunds granted to PRC subsidiaries	**(19,889)**	(14,748)
(Over)underprovision in prior years	**(449)**	148
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries from 1 January 2008 onwards	**15,490**	—
Tax charge for the year	**160,983**	45,569

Details of deferred taxation are set out in note 31.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 15 (2007: 14) directors were as follows:

2008

	Cai Dongchen HK$'000	Yue Jin HK$'000	Feng Zhenying HK$'000	Chak Kin Man HK$'000	Pan Weidong HK$'000	Zhao John Huan HK$'000	Wang Shunlong HK$'000	Ji Jianming HK$'000	Li Zhibiao HK$'000	Zhang Zheng HK$'000	Lee Ka Sze, Carmelo HK$'000	Huo Zhenxing HK$'000	Qi Moujia HK$'000	Guo Shichang HK$'000	Chan Siu Keung, Leonard HK$'000	Total HK$'000
Fees	60	60	60	60	60	–	–	60	60	60	300	66	66	66	150	1,128
Other emoluments:																
Salaries and other benefits	4,335	477	454	1,855	472	–	–	745	516	387	–	–	–	–	–	9,241
Contribution to retirement benefit schemes	385	20	20	171	20	–	–	20	40	28	–	–	–	–	–	704
Performance related incentive payment *(note)*	14,000	3,500	3,000	3,000	3,500	–	–	1,000	500	500	–	–	–	–	–	29,000
Total emoluments	18,780	4,057	3,534	5,086	4,052	–	–	1,825	1,116	975	300	66	66	66	150	40,073

11. DIRECTORS' EMOLUMENTS *(continued)*

2007

	Cai Dongchen	Yue Jin	Feng Zhenying	Chak Kin Man	Pan Weidong	Ji Jianming	Li Zhibiao	Zhang Zheng	Wei Fumin	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	60	60	60	60	—	264	66	66	66	132	1,074
Other emoluments:															
Salaries and other benefits	2,768	209	201	1,205	204	453	488	365	—	—	—	—	—	—	5,893
Contribution to retirement benefit schemes	255	10	10	111	10	10	37	25	—	—	—	—	—	—	468
Performance related incentive payment *(note)*	4,800	796	737	2,400	1,008	822	500	500	—	—	—	—	—	—	11,563
Total emoluments	7,883	1,075	1,008	3,776	1,282	1,345	1,085	950	—	264	66	66	66	132	18,998

Note: The performance related incentive payment is determined by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

No directors waived any emoluments in the years ended 31 December 2007 and 2008.

12. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group in 2007 and 2008 were all directors of the Company and details of their emoluments are included in note 11 above.

13. DIVIDEND

	2008	2007
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
2007 final dividend of HK5 cents per share	**76,906**	—

The final dividend of HK20 cents (2007: HK5 cents) per share for the year ended 31 December 2008 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended 31 December 2008 is based on the profit for the year of HK$940,560,000 (2007: HK$477,388,000) and the 1,537,782,278 weighted average number of ordinary shares (2007: 1,538,124,661 shares in issue) during the year.

No diluted earnings per share is presented for the years ended 31 December 2007 and 2008 as there were no potential ordinary shares in issue during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January 2007	981,893	3,388,404	14,735	17,196	94,498	4,496,726
Exchange adjustments	70,676	224,101	1,051	1,451	6,131	303,410
Additions	791	103,512	4,234	10,041	373,162	491,740
Transfers	145,074	236,720	560	—	(382,354)	—
Acquisition of subsidiaries *(note 37)*	63,892	99,610	693	823	11,185	176,203
Disposals/write-off	(5,386)	(194,949)	—	(2,078)	—	(202,413)
At 31 December 2007	**1,256,940**	**3,857,398**	**21,273**	**27,433**	**102,622**	**5,265,666**
Exchange adjustments	**85,724**	**257,898**	**1,366**	**1,815**	**6,273**	**353,076**
Additions	**13,100**	**49,343**	**3,961**	**3,195**	**280,874**	**350,473**
Transfers	**19,372**	**48,946**	**790**	**—**	**(69,108)**	**—**
Acquisition of a subsidiary *(note 37)*	**31,152**	**45,688**	**441**	**1,355**	**803**	**79,439**
Disposals/write-off	**(184)**	**(256,020)**	**(1,472)**	**(1,375)**	**—**	**(259,051)**
At 31 December 2008	**1,406,104**	**4,003,253**	**26,359**	**32,423**	**321,464**	**5,789,603**
DEPRECIATION						
At 1 January 2007	154,403	1,090,245	7,037	12,015	—	1,263,700
Exchange adjustments	12,693	78,992	493	841	—	93,019
Provided for the year	55,755	330,131	3,212	3,697	—	392,795
Acquisition of subsidiaries *(note 37)*	3,064	13,123	233	144	—	16,564
Eliminated on disposals/write-off	(192)	(147,469)	—	(1,035)	—	(148,696)
At 31 December 2007	**225,723**	**1,365,022**	**10,975**	**15,662**	**—**	**1,617,382**
Exchange adjustments	**16,741**	**94,096**	**688**	**1,078**	**—**	**112,603**
Provided for the year	**68,306**	**364,216**	**4,282**	**5,214**	**—**	**442,018**
Acquisition of a subsidiary *(note 37)*	**2,738**	**12,363**	**239**	**293**	**—**	**15,633**
Eliminated on disposals/write-off	**—**	**(177,307)**	**(1,376)**	**(659)**	**—**	**(179,342)**
At 31 December 2008	**313,508**	**1,658,390**	**14,808**	**21,588**	**—**	**2,008,294**
CARRYING VALUES						
At 31 December 2008	**1,092,596**	**2,344,863**	**11,551**	**10,835**	**321,464**	**3,781,309**
At 31 December 2007	1,031,217	2,492,376	10,298	11,771	102,622	3,648,284

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of ownership. At 31 December 2008, the carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$43,154,000 (2007: HK$702,107,000). In the opinion of the directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At 1 January 2007	2,229	1,005	3,234
Additions	1	—	1
At 31 December 2007	**2,230**	**1,005**	**3,235**
Additions	**726**	**—**	**726**
Write-off	**(1,375)**	**—**	**(1,375)**
At 31 December 2008	**1,581**	**1,005**	**2,586**
DEPRECIATION			
At 1 January 2007	1,555	1,005	2,560
Provided for the year	445	—	445
At 31 December 2007	**2,000**	**1,005**	**3,005**
Provided for the year	**269**	**—**	**269**
Eliminated on Write-off	**(1,289)**	**—**	**(1,289)**
At 31 December 2008	**980**	**1,005**	**1,985**
CARRYING VALUES			
At 31 December 2008	**601**	**—**	**601**
At 31 December 2007	230	—	230

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	Over the shorter of the relevant lease, or 3.3% — 5%
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments with a carrying value of HK$204,673,000 (2007: HK$179,928,000) represent leasehold lands in the PRC held under medium-term land use rights. An amount of HK$6,149,000 (2007: HK$5,384,000) is classified under current assets for reporting purpose.

17. INTANGIBLE ASSETS

	Technical know-how	Development costs	Utility rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2007	82,366	22,348	73,572	178,286
Exchange adjustments	5,453	2,902	4,775	13,130
Additions	6,530	28,883	—	35,413
At 31 December 2007	**94,349**	**54,133**	**78,347**	**226,829**
Exchange adjustments	**6,464**	**3,735**	**5,345**	**15,544**
Additions	**23,661**	**26,752**	**74**	**50,487**
Write-off	**(83,374)**	**(29,856)**	**—**	**(113,230)**
At 31 December 2008	**41,100**	**54,764**	**83,766**	**179,630**
AMORTISATION				
At 1 January 2007	66,631	16,945	46,435	130,011
Exchange adjustments	4,810	1,576	3,352	9,738
Provided for the year	10,916	9,692	7,596	28,204
At 31 December 2007	**82,357**	**28,213**	**57,383**	**167,953**
Exchange adjustments	**5,860**	**2,155**	**4,077**	**12,092**
Provided for the year	**6,119**	**9,154**	**8,209**	**23,482**
Eliminated on write-off	**(83,374)**	**(29,856)**	**—**	**(113,230)**
At 31 December 2008	**10,962**	**9,666**	**69,669**	**90,297**
CARRYING VALUES				
At 31 December 2008	**30,138**	**45,098**	**14,097**	**89,333**
At 31 December 2007	11,992	25,920	20,964	58,876

17. INTANGIBLE ASSETS *(continued)*

At 31 December 2008, included in development costs is an amount of HK$4,373,000 (2007: HK$4,094,000) which was internally generated while all other intangible assets of the Group were acquired from independent third parties. Development costs mainly represent costs incurred for the development of the Group's new products, including clinical experiments and tests conducted by hospital.

Technical know-how mainly represents special techniques and secret formulae for the Group's products development and production.

Utility rights represent up-front non-refundable payments to secure the rights to use electricity in the PRC over 10 years.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Technical know-how	5 to 10 years
Development costs	3 to 5 years from date of commencement of commercial operation
Utility rights	10 years

18. GOODWILL

	HK$'000
COST	
At 1 January 2007	55,764
Arising on acquisition of a subsidiary *(note 37)*	44,954
At 31 December 2007	**100,718**
Exchange adjustments	**3,065**
Arising on acquisition of a subsidiary *(note 37)*	**624**
Arising on acquisition of additional interest in a subsidiary	**2,346**
At 31 December 2008	**106,753**

Particulars regarding impairment testing on goodwill are disclosed in note 19.

19. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill with indefinite useful lives as set out in note 18 and goodwill reserve has been allocated to three individual CGUs as follows:

	HK$'000
Business segment of finished drugs ("Unit A")	**55,764**
Manufacture and sale of penicillin ("Unit B")	**210,495**
Manufacture and sale of cephalosporin ("Unit C")	**624**
	266,883

During the year ended 31 December 2008, management of the Group determines that there is no impairment of the above-mentioned CGUs containing the goodwill. The basis of the recoverable amounts of the CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 7.75% per annum, for Unit A, Unit B and Unit C, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of these units.

20. DEPOSIT PAID FOR INVESTMENT IN AN ASSOCIATE

As at 31 December 2007, the amount represented the deposit paid for the investment in 20% equity interest in Siping City Fine Chemicals Product Company Limited 四平市精細化學品有限公司 ("Siping"). The total consideration for the transaction amounted to RMB20,000,000 (equivalent to HK$21,277,000) and the acquisition was completed in February 2008. Siping is a sino-foreign equity joint venture company established in the PRC and is engaged in the manufacture and sale of pharmaceutical products in Siping City, Jilin Province.

In April 2008, the Group acquired an additional 20% equity interest in Siping for a consideration of RMB20,000,000 (equivalent to HK$22,250,000). Upon the completion of the further acquisition, the Group held an aggregate of 40% equity interest in Siping.

In July 2008, the Group further acquired another 20% equity interest in Siping, which then became a 60% owned subsidiary of the Group. Details of which are set out in note 37.

During the year ended 31 December 2008, the Group shared a net profit of HK$1,362,000 from Siping during the period when it was an associate of the Group.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2008 HK$'000	2007 HK$'000
Cost of unlisted investment in a jointly controlled entity	**19,985**	19,985
Share of post-acquisition profits, net of dividends received or receivable	**2,956**	161
	22,941	20,146

At 31 December 2007 and 2008, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

At 1 January 2007, included in the goodwill reserve was goodwill of HK$7,124,000 arising on acquisition of the jointly controlled entity in prior years. An impairment loss on the entire amount was recognised by the Group during the year ended 31 December 2007 after the re-assessment on the business performance and future plans of the jointly controlled entity by the management.

The summarised financial information in respect of the Group's interest in a jointly controlled entity which is accounted for using the equity method is set out below:

	2008 HK$'000	2007 HK$'000
Current assets	**47,941**	34,432
Non-current assets	**56,685**	58,716
Current liabilities	**(81,464)**	(62,762)
Non-current liabilities	**(1,185)**	(11,204)
Income	**118,149**	107,007
Expenses	**(116,707)**	(109,690)

22. AVAILABLE-FOR-SALE INVESTMENT

	2008	2007
	HK$'000	*HK$'000*
Non-current equity securities listed in the United States	**5,307**	—

During the current year, the Group acquired the above available-for-sale investment for a consideration of HK$15,669,000. The investment is stated at its fair value at the balance sheet date. The directors have reviewed the market prices during the year and subsequent to the balance sheet date and determined an impairment loss recognised directly in the consolidated income statement of HK$10,362,000 for the current year.

23. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances and pledged bank deposits carry interest at market interest rates, ranging from 0.01% to 1.25% (2007: 0.72% to 2.85%) per annum.

As at 31 December 2008, the Group had bank deposits pledged to banks for the acquisition of property, plant and equipment of HK$2,048,000 (2007: HK$751,000) and the deposits are classified as non-current assets.

The bank balances and pledge bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	THE GROUP		**THE COMPANY**	
	HKD	**USD**	**HKD**	**USD**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2008	**83,404**	**26,742**	**77,291**	**601**
As at 31 December 2007	66,618	5,974	24,541	1,562

24. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**119,676**	84,094
Work in progress	**294,835**	211,908
Finished goods	**910,200**	631,865
	1,324,711	927,867

25. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	716,367	674,922
Less: allowance for doubtful debts	(6,012)	(7,009)
	710,355	667,913
Bills receivables	297,382	281,586
	1,007,737	949,499
Other receivables	197,739	100,915
	1,205,476	1,050,414

The Group allows a general credit period of up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) and bills receivables at the balance sheet date:

	2008	2007
	HK$'000	*HK$'000*
0 to 90 days	963,307	917,351
91 to 180 days	41,837	30,534
181 to 365 days	2,593	1,614
	1,007,737	949,499

The Group's trade receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD
	HK$'000
As at 31 December 2008	254,908
As at 31 December 2007	236,490

No impairment loss is provided for the trade receivables that are neither past due nor impaired (i.e. aged within 90 days) because these receivables are within the credit period granted to the respective customer and the management considers the default rate is low for such receivables based on historical information and experience.

25. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(continued)*

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$44,430,000 (2007: HK$32,148,000) which are past due (i.e. aged over 90 days) at the reporting date for which the Group has not provided for impairment loss after making reference to their subsequent settlement pattern. The Group does not hold any collateral over these balances.

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movements in the allowance for doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	**7,009**	7,009
Impairment on trade receivables	**2,000**	—
Amounts written off as uncollectible	**(2,997)**	—
Balance at end of the year	**6,012**	7,009

26. RELATED AND CONNECTED PARTIES DISCLOSURES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(i) Related and connected parties

Name of company	Nature of transactions/balances	2008 HK$'000	2007 HK$'000
The SPG Group	Sale of steam *(note a)*	—	6,084
	Purchase of raw materials *(note b)*	**212,895**	285,025
	Rental expenses *(note c)*	**6,950**	6,086
	Interest expenses on loans from a related/an intermediate holding company *(note d)*	**4,064**	1,211
	Interest expenses on loans from related companies *(note e)*	—	3,286
	Balance due to the SPG Group:		
	— trade payables *(note f)*	**(17,711)**	(25,820)
	— other payables *(note f)*	**(14,375)**	(14,978)
	— short-term loans *(note d)*	**(8,382)**	(9,404)
	— long-term loan *(note d)*	**(113,636)**	—

26. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(i) Related and connected parties *(continued)*

During the year ended 31 December 2008, a facility in the aggregate amount of RMB510,000,000 was made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB250,000,000 and RMB260,000,000, respectively. The facility is a general working capital facility for one year from 17 June 2008. As a condition under the facility, Massive Giant, the immediate holding company, has pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. At 31 December 2008, the extent of such facility utilised by the Group amounted to RMB50,000,000.

During the year ended 31 December 2007, a facility in the aggregate amount of RMB510,000,000 was made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB150,000,000 and RMB360,000,000, respectively. The facility was a general working capital facility for one year from 25 April 2007. As a condition under the facility, China Charmaine had pledged 600,000,000 ordinary shares of the Company in favour of the bank as security. The facility has expired during the current year. At 31 December 2007, the extent of such facility utilised by the Group amounted to RMB130,000,000.

As at 31 December 2008, SPG had also given corporate guarantees to banks in the PRC to secure the loan facilities to the extent of RMB362,400,000 (2007: RMB380,000,000) granted to the Group. At 31 December 2008, the extent of utilisation by the Group amounted to RMB362,400,000 (2007: RMB380,000,000).

In addition, the Group acquired two subsidiaries from the SPG Group during the year ended 31 December 2007, details of which are set out in note 37 and an announcement of the Company dated 30 August 2007.

(ii) Other related parties

Name of company	Nature of transactions/balances	2008 HK$'000	2007 HK$'000
Huarong, a jointly controlled entity of the Group	Sale of raw materials *(note g)*	**5**	5,555
	Purchase of raw materials *(note g)*	**66,779**	56,782
	Provision of utility services by the Group (note h)	**14,416**	8,415
	Balance due from Huarong:		
	— dividend receivables	**6,122**	6,122
	— other receivables *(note f)*	**6,815**	7,758
	— trade receivables *(note f)*	**547**	512
Siping, a former associate of the Group *(see note 20)*	Sale of finished goods *(note g)*	**13,929**	—

26. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(ii) Other related parties *(continued)*

At 31 December 2007, a corporate guarantee of RMB600,000,000 was given by the Company to a bank in the PRC in respect of banking facilities granted to certain subsidiaries of the Company and Huarong. An amount of RMB21,000,000 was utilised by Huarong as at 31 December 2007.

(iii) Connected party

Name of company	Nature of transactions/balances	2008 HK$'000	2007 HK$'000
Guangdong Titan Pharmaceutical Co. Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of the minority shareholder of Siping	Sale of finished goods *(note i)*	**34,344**	—
	Balance due from Guangdong Titan — trade receivables *(note f)*	**23,063**	—

(iv) Remuneration of key management personnel

The remuneration of key management personnel of the Group during the year is as follows:

	2008 HK$'000	2007 HK$'000
Short-term benefits	**38,721**	17,936
Post-employment benefits	**704**	468
	39,425	18,404

Notes:

(a) The transactions in 2007 represented sales of steam by Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co., Ltd. ("Zhonghe"), a subsidiary of the Group, to Shijiazhuang Pharma Group (Inner Mongolia) Zhongkang Sugar Products Co., Ltd. ("Zhongkang"), a former subsidiary of the SPG Group. Zhonghe supplied Zhongkang with steam at the prevailing market price pursuant to an agreement dated 5 September 2005 for a term of three years from 1 September 2005 to 31 August 2008. The sale price of steam was determined on normal commercial terms, or if there is no available comparison, on terms no less favorable than those which may be obtained by the Group from independent third parties. The extent of the connected transactions in 2007 did not exceed the limit stated in the announcement of the Company dated 5 September 2005.

As detailed in note 37, the Group entered into an agreement to acquire 100% of the equity interest in Zhongkang from the SPG Group on 30 August 2007. Subsequent to the acquisition, the transactions above were no longer connected transactions of the Group.

26. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

Notes: (continued)

(b) During the year, the Group purchased chemical products from Hebei Hong Yuan Chemical Co., Ltd. ("Hong Yuan"), a subsidiary of the SPG Group, as raw materials for production pursuant to an agreement dated 29 November 2007 for a term of three years from 1 January 2008 to 31 December 2010. By entering into the above connected transactions, the Group would be benefited from having a reliable source of supply of raw materials from Hong Yuan.

The purchase price of such products have been reached after arm's length negotiation between the Group and Hong Yuan by reference to market price either on normal commercial terms, or if there is no available comparison, on terms no less favorable than those which may be obtained by the Group from independent third parties.

The extent of these connected purchases did not exceed the limit approved by the shareholders of the Company as set out in the announcement dated 29 November 2007.

(c) On 5 July 2005, Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo"), a wholly owned subsidiary of the Group, entered into a lease agreement with SPG whereby Zhongnuo leased two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of three years commencing on 5 July 2005 with the monthly rental of RMB408,595. Upon the expiry of the lease agreement on 4 July 2008, Zhongnuo has continued to rent the premises from SPG for an eight months period to 4 March 2009 by entering into a supplementary agreement with SPG, with the monthly rental remained unchanged.

Subsequent to the balance sheet date, Zhongnuo and SPG renewed the agreement for another term of three years commencing on 5 March 2009, with the revised monthly rental of RMB427,108. Details of these are set out in the announcement of the Company dated 5 March 2009.

On 20 July 2002, Zhongnuo entered into an agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised on 1 August 2008 for a term of three years with the monthly rental revising from RMB92,500 to RMB138,033.

The Group's rental expenses were paid in accordance with the relevant tenancy agreements.

(d) Details of these loans are set out in note 29.

(e) The loans from related companies with an aggregate amount of HK$146,000,000 have been fully repaid during the year ended 31 December 2007. The interest expenses were charged at rates, ranging from 5% to 6% per annum.

(f) At the balance sheet date, these amounts were aged within one year.

(g) The transactions were carried out with reference to the market prices and in the normal course of business of the Group.

(h) The transactions were carried out based on the actual costs of utilities incurred by the Group.

26. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

Notes: (continued)

(i) As detailed in note 37, Siping became a 60% owned subsidiary of the Group on 29 July 2008. At the same date, Siping and Guangdong Titan entered into an agreement in relation to the sales of pharmaceutical intermediate products, which constitute connected transactions, for a term commencing from 29 July 2008 to 28 July 2011. By entering into the agreement, the Group would be able to maintain business relationship with its existing customer, Guangdong Titan, for sales of its products.

The transactions have been transacted on normal commercial terms, which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The extent of these connected purchases did not exceed the limit as set out in the announcement of the Company dated 29 July 2008.

27. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	2008	2007
	HK$'000	*HK$'000*
Trade payables	**638,593**	479,686
Bills payables	**253,409**	169,537
	892,002	649,223
Other payables	**764,772**	648,100
	1,656,774	1,297,323

Included in other payables are payables for the acquisition of property, plant and equipment of HK$333,582,000 (2007: HK$321,674,000), receipts in advance from customers of HK$72,524,000 (2007: HK$83,164,000), accruals of various nature of HK$90,665,000 (2007: HK$77,841,000).

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

	2008	2007
	HK$'000	*HK$'000*
0 to 90 days	**745,560**	595,033
91 to 180 days	**46,094**	29,572
181 to 365 days	**37,208**	11,194
More than 365 days	**63,140**	13,424
	892,002	649,223

28. BANK LOANS

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured				
— fixed-rate RMB bank loans	**752,727**	1,040,426	**—**	—
— floating-rate HKD bank loans	**500,000**	652,000	**500,000**	652,000
— floating-rate USD bank loans	**120,900**	—	**120,900**	—
	1,373,627	1,692,426	**620,900**	652,000

The above bank loans are repayable as follows:

	THE GROUP 2008	THE GROUP 2007	THE COMPANY 2008	THE COMPANY 2007
Within one year	**568,636**	976,043	**100,000**	292,000
More than one year, but not more than two years	**512,451**	544,468	**228,360**	220,000
More than two years, but not more than five years	**292,540**	171,915	**292,540**	140,000
	1,373,627	1,692,426	**620,900**	652,000
Less: Amounts due within one year shown under current liabilities	**(568,636)**	(976,043)	**(100,000)**	(292,000)
Amounts due after one year	**804,991**	716,383	**520,900**	360,000

The ranges of effective interest rates of the Group's fixed-rate RMB bank loans, floating-rate HKD bank loans and floating-rate USD bank loans are 5.31% to 8.22% (2007: 5.02% to 7.47%) per annum, 0.69% to 6.05% (2007: 4.08% to 6.05%) per annum and 2.72% (2007: Nil) per annum, respectively. The floating-rate HKD and USD bank loans are subject to interest at HIBOR and LIBOR plus a spread, respectively.

28. BANK LOANS *(continued)*

The borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	THE GROUP AND THE COMPANY	
	USD	**HKD**
	HK$'000	*HK$'000*
As at 31 December 2008	**120,900**	**500,000**
As at 31 December 2007	—	652,000

At the balance sheet date, the Group had undrawn loan facilities to the extent of HK$54,600,000 (2007: HK$60,000,000) and HK$352,273,000 (2007: HK$244,681,000) in respect of floating-rate USD/HKD bank loans and fixed-rate RMB bank loans, respectively.

29. LOANS FROM A RELATED COMPANY/AN INTERMEDIATE HOLDING COMPANY

The loans due to SPG are unsecured and analysed as follows:

	2008	2007
	HK$'000	*HK$'000*
Current liability:		
— interest-free loans	**8,382**	9,404
Non-current liability:		
— a loan which is interest bearing at the rate of 7.5% per annum and fully repayable in June 2010	**113,636**	—

At 31 December 2007, the fair value of the interest-free loans of HK$9,404,000 was determined based on the present value of the estimated future cash outflows discounted using the effective interest rate of 3.78% per annum. At 31 December 2008, the loans were repayable on demand, and therefore classified as current liabilities.

30. DERIVATIVE FINANCIAL INSTRUMENT

During the year ended 31 December 2007, the Company entered into an arrangement of a financial instrument with a financial institution with a view to reducing the finance costs of the Group. The financial instrument is a structured interest rate swap with an embedded USD Forward Rate Bias linked structure (the "Structured Swap"). The Structured Swap has a notional amount of HK$100,000,000 and a tenure of 4 years (i.e. mature on 22 October 2011). The Structured Swap is measured at fair value at each balance sheet date based on the valuation provided by the counterparty bank. The Company has early terminated the Structured Swap in April 2008, resulting in a gain of HK$6,851,000 recognised directly in the consolidated income statement.

31. DEFERRED TAXATION

Starting from 1 January 2008 onwards, the New Law as mentioned in note 10 requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders. Deferred taxation of HK$15,490,000 (2007: Nil) has been provided for the current year in the consolidated financial statements in respect of the temporary differences attributable to such profits.

At the balance sheet date, the Group had unused tax losses of HK$107,890,000 (2007: HK$141,440,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit steams. Most of the unrecognized tax losses will expire in various dates up to 2013.

There was no other significant deferred taxation for the year or at the balance sheet date.

32. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 December 2007 and 2008	3,000,000,000	300,000

	Number of shares		Share capital	
	2008	2007	**2008** **HK$'000**	2007 HK$'000
Issued and fully paid:				
At beginning of year	**1,538,124,661**	1,538,124,661	**153,812**	153,812
Shares repurchased	**(3,164,000)**	—	**(316)**	—
At end of year	**1,534,960,661**	1,538,124,661	**153,496**	153,812

32. SHARE CAPITAL *(continued)*

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
October 2008	1,640,000	1.41	1.33	2,255
December 2008	1,524,000	2.76	2.68	4,167

During the year, the Company repurchased 3,164,000 ordinary shares of the Company on the Stock Exchange for a total consideration of HK$6,422,000. Out of the repurchased ordinary shares, 2,816,000 shares were cancelled during the year and the remaining 348,000 shares were cancelled subsequent to the balance sheet date. The issued share capital of the Company has been reduced by the par value of the total repurchased shares and the relevant aggregate consideration was paid out from the Company's retained profits.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

33. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The Scheme shall be valid and effective for a period of 10 years since its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme (i.e. 153,812,466 shares). The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceed 0.1% of the total number of shares in issue and have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

33. SHARE OPTION SCHEME *(continued)*

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

34. INVESTMENTS IN SUBSIDIARIES

	2008	2007
	HK$'000	*HK$'000*
Unlisted investments, at cost	**1,506,033**	1,320,766

Particulars of the Company's subsidiaries as at 31 December 2007 and 2008 are set out in note 43.

35. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and recoverable within twelve months from the balance sheet date.

36. RESERVES OF THE COMPANY

	Share premium	**Capital redemption reserve**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	1,116,727	—	139,975	1,256,702
Profit for the year	—	—	118,080	118,080
At 31 December 2007	**1,116,727**	**—**	**258,055**	**1,374,782**
Profit for the year	**—**	**—**	**496,852**	**496,852**
Shares repurchased	**—**	**316**	**(6,422)**	**(6,106)**
Final dividend for the year ended 31 December 2007	**—**	**—**	**(76,906)**	**(76,906)**
At 31 December 2008	**1,116,727**	**316**	**671,579**	**1,788,622**

37. ACQUISITION OF SUBSIDIARIES

On 29 July 2008, the Group further acquired 20% equity interest in its associate, Siping (see note 20), for a consideration of RMB20,000,000 (equivalent to HK$22,250,000). Upon the acquisition, Siping became a 60% owned subsidiary of the Group. This acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was HK$624,000.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount and fair value
	HK$'000
Net assets acquired:	
Property, plant and equipment	63,806
Prepaid lease payments	18,328
Inventories	16,027
Trade and other receivables	41,752
Bills receivables	26,476
Trade receivables due from a fellow subsidiary	40,522
Bank balances and cash	10,583
Trade and other payables	(25,020)
Trade payables due to the Group	(39,585)
Tax liabilities	(569)
Secured bank loans	(39,045)
	113,275
Minority interests	(45,310)
Goodwill	624
	68,589
Total consideration satisfied by:	
Cash	22,250
Investment in an associate	46,339
	68,589
Net cash outflow arising on acquisition:	
Cash consideration paid	(22,250)
Bank balances and cash acquired	10,583
	(11,667)

37. ACQUISITION OF SUBSIDIARIES *(continued)*

The goodwill arising on acquisition of Siping is attributable to the anticipated future operating synergies in the Group's business of manufacture and sale of cephalosporin products in the PRC after the acquisition.

Siping contributed profit of HK$10,924,000 for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, the Group's revenue for the year would have been HK$6,916 million, and profit for the year would have been HK$987 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

During the year ended 31 December 2007, the following acquisitions took place:

(i) On 30 August 2007, the Group entered into an agreement to acquire 100% of the equity interest in Zhongkang from the SPG Group for a consideration of RMB130,000,000 (equivalent to HK$138,808,000);

(ii) On 6 July 2007, the Group entered into an agreement to acquire 51% of the equity interest in Shijiazhuang Pharma Group (Inner Mongolia) Zhongxing Huanbao Co., Ltd. ("Zhongxing Huanbao") from an independent third party for a consideration of RMB4,999,000 (equivalent to HK$4,999,000); and

(iii) On 10 November 2007, the Group entered into an agreement to acquire 100% of the equity interest in Shijiazhuang Pharma Group Zhongchen Pharmaceutical Co., Ltd. ("Zhongchen") from SPG for a consideration of RMB1,800,000 (equivalent to HK$1,915,000).

The above acquisitions took place during the year ended 31 December 2007 have been accounted for using the purchase method of accounting. The amount of goodwill arising is set out below.

Details of these acquired subsidiaries are set out in note 43.

37. ACQUISITION OF SUBSIDIARIES *(continued)*

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Zhongkang			Zhongxing Huanbao			Zhongchen	
	Acquiree's carrying amount before combination	Fair value adjustments	Fair value	Acquiree's carrying amount before combination	Fair value adjustments	Fair value	Acquiree's carrying amount and fair value	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	119,710	11,071	130,781	34,757	(5,899)	28,858	—	159,639
Prepaid lease payments	21,926	—	21,926	—	—	—	—	21,926
Inventories	26,629	493	27,122	1,942	2,169	4,111	21	31,254
Trade and other receivables	5,366	—	5,366	3,030	—	3,030	7,447	15,843
Amount due from a jointly controlled entity	618	—	618	—	—	—	—	618
Bank balances and cash	1,442	—	1,442	222	—	222	2,104	3,768
Trade and other payables	(15,470)	—	(15,470)	(26,666)	—	(26,666)	(210)	(42,346)
Amount due to a related company	(13,995)	—	(13,995)	—	—	—	(7,447)	(21,442)
Trade payables due to fellow subsidiaries	(8,514)	—	(8,514)	—	—	—	—	(8,514)
Tax liabilities	(2,231)	—	(2,231)	—	—	—	—	(2,231)
Unsecured bank loans	(53,191)	—	(53,191)	—	—	—	—	(53,191)
	82,290	11,564	93,854	13,285	(3,730)	9,555	1,915	105,324
Minority interests			—			(4,556)	—	(4,556)
Goodwill			44,954			—	—	44,954
			138,808			4,999	1,915	145,722
Total consideration satisfied by cash			138,808			4,999	1,915	145,722
Net cash (outflow) inflow arising on acquisitions:								
Cash consideration paid			(138,808)			(4,999)	(1,915)	(145,722)
Bank balances and cash acquired			1,442			222	2,104	3,768
			(137,366)			(4,777)	189	(141,954)

The goodwill arising on acquisition of Zhongkang is attributable to the anticipated future operating synergies in the Group's business of manufacture and sale of penicillin products in Inner Mongolia after the acquisition.

38. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2008	2007
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of land and buildings	**14,521**	13,033

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

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**12,357**	5,687	**2,356**	2,347
In the second to fifth year inclusive	**20,472**	4,512	**2,136**	4,027
Over five years	**—**	121	**—**	—
	32,829	10,320	**4,492**	6,374

Operating lease payments represent rentals payable by the Group for certain of its office, factory properties and staff quarters. Leases are negotiated and rentals are fixed for an average term of two to three years.

39. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— property, plant and equipment	**170,422**	107,026
— intangible assets	**25,339**	16,757
	195,761	123,783

The Company had no capital commitment at both balance sheet dates.

40. MAJOR NON-CASH TRANSACTIONS

During the year, an amount of HK$551,000 (2007: HK$1,818,000) of sale proceeds on disposal of property, plant and equipment was agreed with the suppliers to set off against trade payables for the same amount.

41. CONTINGENT LIABILITIES

(i) As disclosed in the press announcement of the Company dated 22 February 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. These antitrust complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and therefore, suffered losses. The plaintiffs purported to bring these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust laws. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned announcement, there were some other complaints with the same nature as the antitrust complaints filed in the United States. Up to date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary. The legal adviser of the Group has successfully consolidated all such cases to be heard in the Federal Court of New York.

On 3 May 2006, the first court meeting was held before a judge of the U.S. District Court for the Eastern District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchaser plaintiff amended its claim and requested that only direct purchasers of the Vitamin C who had not entered into any agreements containing arbitration clauses could be part of the class of purchasers it sought to represent.

Submissions concerning whether the direct purchaser case may proceed as a class action have been made during the year 2007 and fact discovery has concluded in October 2008. According to the latest timetable fixed by the court, parties are required to complete liability expert discovery by 15 May 2009 and dispositive motion process concerning liability is to commence by 1 June 2009. The action is still in the stage of class discovery.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

(ii) At 31 December 2007, a corporate guarantee of RMB600,000,000 was given by the Company to a bank in the PRC in respect of banking facilities granted to certain subsidiaries of the Company and Huarong. An amount of RMB21,000,000 was utilised by Huarong as at 31 December 2007.

42. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK$57,819,000 (2007: HK$53,570,000), of which HK$709,000 (2007: HK$420,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

43. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2007 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	100	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	100	—	Investment holding
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd. ("Zhongrun")	The PRC	Limited liability cooperative joint venture enterprise	RMB513,490,300 (2007: RMB463,490,300)	81.08 (2007: 79.04)	18.21 (2007: 20.17)	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB160,000,000	100	—	Manufacture and sale of pharmaceutical products

43. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. ("Zhongrun (Inner Mongolia)")	The PRC	Foreign investment enterprise with limited liability	RMB273,150,000 (2007: RMB138,150,000)	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. ("Weisheng")	The PRC	Foreign investment enterprise with limited liability	US$27,345,500 (2007: US$20,169,000)	100	—	Manufacture and sale of pharmaceutical products
Zhongnuo	The PRC	Foreign investment enterprise with limited liability	RMB282,810,000 (2007: RMB216,000,000)	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	100	—	Provision of pharmaceutical research and development services
Shijiazhuang Pharma Group Hebei Zhongrun Huanbao Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	85	Sewage treatment
Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB18,000,000	80.42%	19.58% (2007: Nil)	Sewage treatment

43. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Zhongkang	The PRC	Foreign investment enterprise with limited liability	RMB33,000,000	—	100	Manufacture and sale of pharmaceutical products
Zhongxing Huanbao	The PRC	Foreign investment enterprise with limited liability	RMB15,000,000	—	51	Sewage treatment
Shijiazhuang Pharma Group (Shijiazhuang) High Medical Technology Development Co., Ltd.	The PRC	Sino-foreign equity joint venture company	RMB30,000,000	25	58.33	Provision of pharmaceutical research and development services
Zhongchen	The PRC	Foreign investment enterprise with limited liability	RMB8,750,000	—	100	Manufacture and sale of pharmaceutical products
New subsidiaries in 2008:						
Siping	The PRC	Sino-foreign equity joint venture company	RMB39,529,435	60	—	Manufacture and sale of pharmaceutical products
Unigene Biotechnology Co., Ltd.	The PRC	Sino-foreign equity joint venture company	US$7,000,000	55	—	Provision of pharmaceutical research and development services

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Subsidiary merged with Zhongrun in 2008:						
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB50,000,000	2007: 100	—	Manufacture and sale of pharmaceutical products
Subsidiary merged with Weisheng in 2008:						
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB59,400,000	2007: 100	—	Manufacture and sale of pharmaceutical products
Subsidiary merged with Zhongrun (Inner Mongolia) in 2008:						
Zhonghe	The PRC	Foreign investment enterprise with limited liability	RMB135,000,000	2007: 100	—	Manufacture and sale of pharmaceutical products

None of the subsidiaries had any debentures outstanding at the end of the year or at any time during the year.

44. POST BALANCE SHEET EVENT

On 9 March 2009, Zhongrun (Inner Mongolia) and a connected person of the Company, Beijing Wandafei Technology Trading Company Limited ("Beijing Wandafei") entered into a share transfer agreement, pursuant to which Zhongrun (Inner Mongolia) has agreed to purchase and Beijing Wandafei has agreed to sell the entire 49% interest in Zhongxing Huanbao for a consideration of RMB9,000,000 (equivalent to HK$10,227,273).

Prior to the acquisition, Zhongxing Huanbao was a non-wholly owned subsidiary of the Group which was owned by Zhongrun (Inner Mongolia) and Beijing Wandafei as to 51% and 49%, respectively.

After the acquisition, Zhongxing Huanbao becomes a wholly-owned subsidiary of the Group, details of the acquisition are set out in the announcement of the Company dated 9 March 2009.

Financial Summary

RESULTS

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	2,450,649	3,192,065	3,538,754	4,986,059	**6,829,995**
Cost of sales	(1,819,804)	(2,498,501)	(2,925,429)	(3,449,641)	**(4,548,661)**
Gross profit	630,845	693,564	613,325	1,536,418	**2,281,334**
Other income	14,677	21,157	34,814	27,278	**42,834**
Selling and distribution expenses	(131,453)	(182,723)	(232,511)	(379,203)	**(470,787)**
Administrative expenses	(225,503)	(287,014)	(308,094)	(471,280)	**(514,493)**
Other expenses	(15,449)	(26,754)	(6,808)	(74,822)	**(120,801)**
Operating profit	273,117	218,230	100,726	638,391	**1,218,087**
Share of results of a jointly controlled entity	3,419	(1,099)	(3,350)	(2,683)	**1,442**
Share of results of an associate	—	—	—	—	**1,362**
Gain on termination of a derivative financial instrument	—	—	—	—	**6,851**
Change in fair value of a derivative financial instrument	—	—	—	(551)	**—**
Impairment loss on an available-for-sale investment	—	—	—	—	**(10,362)**
Finance costs	(27,959)	(68,139)	(95,776)	(112,809)	**(109,367)**
Profit before tax	248,577	148,992	1,600	522,348	**1,108,013**
Income tax (expense) credit	(3,185)	7,301	13,763	(45,569)	**(160,983)**
Profit for the year	245,392	156,293	15,363	476,779	**947,030**
Attributable to:					
Equity holders of the Company	245,011	156,518	15,664	477,388	**940,560**
Minority interests	381	(225)	(301)	(609)	**6,470**
	245,392	156,293	15,363	476,779	**947,030**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share — Basic	15.93	10.18	1.02	31.04	**61.16**

Financial Summary

ASSETS AND LIABILITIES

	At 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	4,707,246	5,379,779	5,273,408	6,458,745	**7,903,406**
Total liabilities	(2,438,149)	(2,884,251)	(2,622,574)	(3,087,605)	**(3,320,211)**
Net assets	2,269,097	2,495,528	2,650,834	3,371,140	**4,583,195**
Equity attributable to equity holders of the Company	2,259,039	2,484,832	2,641,641	3,352,298	**4,497,378**
Minority interests	10,058	10,696	9,193	18,842	**85,817**
Total equity	2,269,097	2,495,528	2,650,834	3,371,140	**4,583,195**