China Asean Resources Limited

神州東盟資源有限公司

(Formerly known as Medical China Limited)
(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

Annual Report 2007

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This report, for which the directors of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to China Asean Resources Limited. The directors of China Asean Resources Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived or after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

Board of Directors

Executive directors

LI Nga Kuk, James *(Chairman)*
LI Wo Hing *(Chief Executive Officer)*
LI Tai To, Titus

Non-executive director

CHEN Minshan

Independent non-executive directors

FAN Wan Tat
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

Audit Committee

FAN Wan Tat *(Chairman)*
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

Nomination Committee

FAN Wan Tat *(Chairman)*
TAM Wai Leung, Joseph
LI Nga Kuk, James

Remuneration Committee

TAM Wai Leung, Joseph *(Chairman)*
FAN Wan Tat
LI Wo Hing

Compliance Officer

LI Wo Hing, MBA

Company Secretary

LAI Tin Yin, Fion, FCIS, CPA

Bermuda Assistant Secretary

Appleby Services (Bermuda) Ltd.

Qualified Accountant

LAI Tin Yin, Fion, FCIS, CPA

Auditors

Kennic L. H. Lui & Co. Ltd.
Certified Public Accountants (Practising)

Head Office and Principal Place of Business

Office B, 21st Floor, Teda Building
87 Wing Lok Street, Hong Kong

Registered Office

Canon's Court, 22 Victoria Street
Hamilton HM12

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Ltd
Rooms 1901-5, 19th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

GEM Stock Code

8186

Website Address

www.md23.cn

Chairman's Statement

I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2007.

Result Analysis

For the year ended 31 December 2007, the Group recorded a turnover of HK$38,443,000, representing an increase of 9.9% over the year 2006. Loss attributable to shareholders was approximately HK$21,989,000 (2006: HK$29,378,000).

Business Review

Following the acquisition of the entire capital of (Cambodia) Tong Min Group Engineering Co., Ltd (the "(Cambodia) Tong Min") in October 2007, the Group expanded into the forest exploitation, agriculture and plantation business in Cambodia. I have confidence that our investment in Cambodia will provide a strong base for sustainable revenue and profit contribution to the Group in coming years.

For the development of RFAS radio frequency treatment in the People's Republic of China (the "PRC") market, the business experienced a reduction in revenue as the number of co-operation contracts with PRC hospitals declined. The promotion of the Group's "Multi-bullet, multi-hold drug injection system" in PRC hospitals progressed slower than expected. All these affected the Group's revenue and profit for the year.

The sale of medical equipments made good progress during the year. Sales of medical equipment increased by 36.6% to HK$38,243,000 as compared to the previous year. The sale increase had a positive effect to the Group's revenue. The Board expects sales will continue to increase in the year 2008, as we expand and strengthen our sales team and after sales services. However, there will be downward pressure on the unit selling price due to strong market competition and weakening of the US dollar against RMB.

After due evaluation of the current conditions in the PRC pharmaceutical market, in particular, the tightening of drug approval requirements by the State Food and Drug Administration ("SFDA"), the Group decided to focus our research and development efforts on a principal anti-cancer product. During the year, testing of clinical trial sample batches was completed by the provincial SFDA, and submission documents seeking approval to commence clinical trials are being prepared.

The construction of a new factory building and its annexure designed to manufacture drugs and medicines in Nanjing have been completed. Production machineries and air control system are in the process of being installed.

Last year, the Group's plantation development in Guilin suffered losses due to poor climate conditions. With recent heavy snow storms in Southern and Central China, there were further damages. The Board reassessed the plantation development plan and made provision of impairment loss of HK$6,785,000 for the year.

Chairman's Statement

Business Outlook

Following the acquisition of (Cambodia) Tong Min in October 2007, we have built access roads and various support facilities in the concession area in Kratie Province. Logging of the forest area commenced in February 2008, and the first sawn timber production line was commissioned in March 2008. Machinery orders for a wood flooring factory have been placed and production is expected to begin the second half of 2008. We anticipate that the investment will bring significant contribution to the Group.

The Group has reached in-principal agreement to acquire the second concession area measuring approximately 9,555 hectares, which is contiguous to the first concession area. We believe that the acquisition of the second concession area will strengthen the Group's market position in the natural resources industry in Cambodia, and improve the Group's business profile and financial performance in the future.

The Group will continue developing its existing medical and pharmaceutical businesses and forecast that sales of medical equipment will further increase in the coming year. In the drug development business, we will seek approval to commence Phase I clinical trial for our anti-cancer product this year. In Nanjing, we will finish the fitting out and installation of machineries and seek GMP clearance from the SFDA. In Guilin, the Group will continue to support the plantation development for long term investment purpose.

Acknowledgement

I hereby express my gratitude to all the directors for their contributions, and on behalf of the Board, I would like to extend my sincere appreciation to all the shareholders, all the staff stationed in Cambodia, hospital staff, customers, suppliers and all of our staff for their contributions and supports.

Li Nga Kuk, James
Chairman

19 March 2008

Management Discussion and Analysis

Financial Review

The Group's annual turnover for the year ended 31 December 2007 amounted to approximately HK$38,443,000, representing an increase of 9.9% as compared with the corresponding year in 2006. For the year ended 31 December 2007, the Group's sustained a loss attributable to equity holders of the Company of approximately HK$21,989,000 (2006: HK$29,378,000). Included in the loss for the year were the impairment loss for the plantation development in Guilin, China of HK$6,785,000, expenses incurred in placement of new shares for the acquisition of (Cambodia) Tong Min of HK$3,238,000 and the initial amortization charge of the forest exploitation rights in Cambodia of HK$3,757,000.

The operating expenses for the year ended 31 December 2007 decreased by 8.3% to HK$45,398,000 from HK$49,506,000 as compared with that of the corresponding period last year.

Other revenue for the year ended 31 December 2007 amounted to approximately HK$4,114,000, representing an increase of 92.7% as compared with the corresponding period last year. The increase was mainly attributable to an increase in interest income for the year.

The basic loss per share for the year ended 31 December 2007 was 2.12 Hong Kong cents (2006: 3.52 Hong Kong cents).

At 31 December 2007, there is no outstanding bank loan of the Group (2006: HK$3,484,000).

Capital Structure

As at 31 December 2007, the total number of issued ordinary shares and the issued share capital of the Company were 1,705,000,000 (2006: 835,000,000) and HK$17,050,000 (2006: HK$8,350,000) respectively. During the year, the Company increased its issued share capital by the allotment of 167,000,000 New Placement Shares, 233,000,000 Top-up Shares, 400,000,000 Consideration Shares and 70,000,000 Conversion Shares.

Capital Management

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

Management Discussion and Analysis

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness by adjusted capital. Total indebtedness includes bank overdrafts, bank loans, finance lease liabilities, bonds and other interest bearing securities. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognized in equity relating to cash flow hedges, less unaccrued proposed dividends.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the gearing ratio at 0% to 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, repurchase of shares, raise new debt financing or sell assets to reduce debt.

Our gearing ratio was 0% and 3.7% as at 31 December 2007 and 31 December 2006, respectively. The improving gearing ratio in the financial year under review was due to the full repayment of bank loan and change of loan term with China Merchant Bank. Under the new banking facility, the Group was granted general banking facility of HK$4,806,000, payable on demand, with interest at market prevailing rate as fixed by the People's Bank of China from time to time and 10% of interest so charged. The facility was secured by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$6,974,000 at 31 December 2007 (2006: HK$6,750,000). The change of term provides greater flexibility of the Group in managing the liquidity and interest expenses. Undrawn facility as at 31 December 2007 amounted to HK$4,806,000 compared to HK$1,068,000 as at 31 December 2006.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2007, the Group had total assets of approximately HK$474,815,000 (2006: HK$134,558,000) which were financed by current liabilities of approximately HK$69,675,000 (2006: HK$33,799,000) and equity attributable to equity holders of the Company of approximately HK$398,265,000 (2006: HK$94,420,000).

The current assets of the Group amounted to approximately HK$159,435,000 (2006: HK$87,613,000 of which approximately HK$99,400,000 (2006: HK$69,957,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK$69,675,000 (2006: HK$33,799,000) of which approximately HK$69,391,000 (2006: HK$30,075,000) were trade and other payables and HK$284,000 (2006: HK$240,000) was provision for income tax. There is no outstanding bank loan of the Group at 31 December 2007 (2006: HK$3,484,000). During the year, the Group negotiated new banking facility from China Merchant Bank, was granted general banking facility of HK$4,806,000, payable on demand, with interest charged at market prevailing rate as fixed by the People's Bank of China from time to time and 10% of interest so charged. The facility was secured by the Group's buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$6,974,000 at 31 December 2007 (2006: HK$6,750,000).

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus fund with banks on short-term deposits.

The net assets value per share as at 31 December 2007 was HK$0.24 (2006: HK$0.12).

Capital Commitment, Significant Investments and Material Acqusitions and Disposals

During the year ended 31 December 2007, the Company acquired the entire share capital of (Cambodia) Tong Min with the approval by independent shareholders in the SGM on 2 October 2007. Following completion of the Acquisition of (Cambodia) Tong Min in October 2007, the Group has expanded into the forestry business in Cambodia and is expected to receive the economic benefit derived from the initial clearing up of the forest and the subsequent rubber plantation for 70 years from 2007.

On 9 January 2008, the Group entered into the non-binding In-Principle Agreement with the Vendor. Pursuant to which, the Group may acquire the entire share capital of Agri-Industrial Crop with total consideration of the Acquisition will be not more than HK$300 million and will be satisfied by way of cash (to be financed by the internal resources of the Group), bond and new Shares to be issued by the Company, which, if so issued, will be issued at an issue price of HK$0.60 per share, being the weighted average of the prices of the placing of the Shares conducted by the Company in July 2007, or a combination of any of the above, subject to finalisation of the valuation report prepared by the Independent Valuer.

Agri-Industrial Crop is an investment company incorporated in Cambodia and its principal business scopes are exploitation of the Second Forest (including forest clearing and processing of salvage logs into wood products) and rubber tree plantation for the subsequent latex production therein. The Second Forest is adjacent to the First Forest currently owned by the Group and has a site area of approximately 9,555 hectares (equivalent to approximately 95.55 million sq.m.).

There was no disposals of subsidiaries and affiliated companies during the year.

As at 31 December 2007, the Group had outstanding capital commitment of approximately HK$13,693,000 (2006: HK$17,123,000).

Management Discussion and Analysis

Risk Management

Risk management is an integral part of the operation management. The Group has put in place an effective risk management framework to ensure risks undertaken are properly managed. Operating in sales and development of medical drugs and medical equipment as well as forest exploitation business, the Group faces a wide spectrum of risks, the most important types are being credit, liquidity, market and operational risks. The Group's risk management framework includes the establishment of policies and procedures to identify and analyse risks and to set appropriate risk control limits. The risk management policies and major control limits are approved by the board of directors. Risk limits are monitored and controlled continually by internal control department by means of reliable and up-to-date management information systems. The management of various types of risks is well coordinated at the Board level.

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from merger and acquisition as well as trading. The Group has dedicated policies and procedures in place to control and monitor the risk from all such activities.

The internal control department function is mandated to provide centralized management of credit risk through:

– formulating credit policies on approval process, post-disbursement monitoring and collection process;

– issuing guidelines on setting of credit payment terms to customers and acceptability of warranty, undertaking or deposit from customers;

– reviewing the repayment of account receivable by aging analysis;

– monitoring the largest exposures by customers;

– providing advice and guidance to business units on various credit-related issues.

The Group undertakes ongoing credit analysis and monitoring at several levels. Special attention is paid to long-outstanding trade receivable. Provision on impairment loss is made semi-annually. Collection and recovery units are established by the Group to provide customers with intensive support in order to maximize recoveries of long-outstanding trade receivable. Management regularly performs an assessment of the adequacy of the established impairment provisions by conducting a detailed review of the aging analysis, comparing performance and pastdue statistics against historical trends.

Liquidity risk

Liquidity management is essential to ensure the Group has the ability to meet its obligations as they fall due. It is the Group's policy to maintain a strong liquidity position by properly managing the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are comfortably met.

The Group has established policies and procedures to monitor and control its liquidity position on a monthly basis by adopting a cash flow management approach. The approach seeks to forecast committed cash inflows and outflows of the business and results in a monthly net funding requirement which indicates the financing needs for any period within the scope of the forecast conditions.

Market risk

Market risk is the risk that foreign exchange rates, interest rates and equity, and indices will move and result in profits or losses for the Group. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk.

Foreign exchange risk

The Group exposures to market risk primarily arise from the effective foreign currency risk management. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with RMB. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group does not hedge its foreign currency risks with US dollar as the rate of exchange between Hong Kong dollar and the US dollar is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on consolidated financial statements.

As at 31 December 2007, the Group had no outstanding hedging instruments (2006: HK$Nil).

Management Discussion and Analysis

Interest rate risk

The Group is not subject to any interest rate risk as all interest bearing debts has been fully settled. The Board has set out capital management policy which is focus on the control of interest bearing debts. Following the well-defined policy, the gearing ratio is set to be under the adjusted capital and this will minimize the Group exposure to interest rate volatility.

Equity risk

The Group's equities exposure was mainly in long-term equity investments which are reported as investment in subsidiaries set out in note 19 to the financial statements. All equities held are more than 50% with controlling interest and are for long term investment. They are not subject to volatility arises from short term fluctuation.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error omission, inefficiency, system failure or from external events. It is inherent to every business organization and covers a wide spectrum of issues. The Group manages its operational risk through a controls-based environment in which the processes and controls are documented, authorization is independent and transactions are reconciled and monitored. This is supported by periodic independent review of the internal control department. The operational risk management framework comprises assignment of responsibilities at senior management level, assessment of risk factors inherent in each business and operations units, information systems to record operational losses and analysis of loss events. Operational risk is mitigated by adequate insurance coverage on assets and business losses. To reduce the impact and interruptions to business activities caused by natural disaster, back-up systems and contingency plans are in place for all business and critical operational functions. Operational risk management is coordinated by the Chief Operating officer of business units and monitored by the Internal Control Department.

Employees' information and benefit scheme for the employees

As at 31 December 2007, the Group has 227 (2006: 198) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2007 and 2006 were approximately HK$11,327,000 and HK$6,115,000 respectively.

On 12 October 2007, the Company granted Share Options for 40,000,000 shares to employees of the Group at an exercise price of HK$0.45 per share during the period from 12 October 2008 to 12 October 2014 under its Share Option Scheme. The total share options granted included 4,000,000 to a director, Mr. Li Wo Hing.

In addition to the Share Option Scheme adopted by the Company on 14 September 2001, the Group also provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulation of PRC.

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participates in a defined contribution retirement benefit scheme (the "Scheme") organized by the municipal government whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of the eligible employees. The government of the PRC is responsible for the entire pension obligations payable to retired employees. The Group is not liable to any retirement benefits payment beyond the contributions to the Scheme.

Contingent Liabilities

As at 31 December 2007, the Group and the Company did not have any material outstanding contingent liabilities.

Business Review

Acquisition of (Cambodia) Tong Min

Since the acquisition of (Cambodia) Tong Min in October 2007, the Group made significant progress in the development of the concession area measuring 9,965 hectares in Kratie Province, Cambodia. Access roads connecting the concession area and National Highway No. 7 were completed at the time of this report, as well as supporting infrastructure such as worker's accommodation, fresh water wells and a timber yard.

Development of the market and application of RFAS in the PRC

The Group's RFAS radio frequency treatment business experienced a reduction in revenue as the number of co-operation contracts with the PRC hospitals declined. The promotion of the Group's "Multi-bullet, multi-hold drug injection system" in PRC hospitals progressed slower than expected. All these affected the Group's revenue and profit for the year.

Manufacturing and sales of medical equipment

The sales of medical equipment made good progress during the year. Sales of medical equipment increased by 36.6% to HK$38,243,000 as compared to the previous year. The sale increase had a positive effect to the Group's revenue. The Board expects sales will continue to increase in the year 2008, as the Group expands and strengthens its sales and after sales service teams. However, there will be downward pressure on the unit selling price due to the strong market competition and the weakening of the US dollar against RMB.

Management Discussion and Analysis

Research, development and sales of drugs

After due evaluation of the current conditions in the PRC pharmaceutical market, in particular, the tightening of drug approval requirements by the State Food and Drug Administration ("SFDA"), the Group decided to focus its research and development efforts on a Category One anti-cancer product. During the year, testing of clinical trial sample batches was completed by the provincial SFDA. The National Centre for Drug Evaluation has received the test report and completed the drug's technical assessment. Submission documents seeking approval to commence clinical trials are being prepared.

Manufacturing and sales of drugs and medicines

The construction of a new factory building and its annexure designed to manufacture drugs and medicines in Nanjing have been completed. Production machineries and air control system are in the process of being installed.

Plantation development in Guilin

Last year, the Group experienced losses for its plantation development in Guilin, China due to the poor climate condition. The drought condition resulted in losses, in particular, of young plants. With the recent heavy snow storms in Southern and Central China, there were further damages. The Board reassessed the plantation development plan and made provision of impairment loss of HK$6,785,000 for the year.

Outlook

Following the acquisition of (Camboida) Tong Min in October 2007, clearing of the forest area commenced in February 2008, and the first sawn timber production line was commissioned in March 2008. The Directors anticipate that an annual sawn timber processing capacity of approximately 25,000 cubic metres will be in place by the third quarter of 2008. Machinery orders for a wood flooring material factory with an annual capacity of 50,000 cubic metres have also been placed and production is expected to commence in the second half of 2008.

Concurrent with its logging progress, the Group has secured purchase orders for the sale of sawn timbers and wood flooring materials totaling US$32 million (equivalent to approximately HK$249.6 million) for delivery in 2008 and 2009. The Directors are confident of procuring additional purchase orders as the Group ramp up its production volume.

The Group has reached in-principal agreement to acquire a second concession area measuring approximately 9,555 hectares, which is contiguous to the first concession area. The Directors believe that the acquisition of the second concession area will create substantial synergistic value in logging, wood processing, transportation and logistics, and rubber plantation. The Directors also believe the acquisition will strengthen the Group's market position in the natural resources industry in Cambodia, and improve the Group's business profile and financial performance in the future.

The Group will continue developing its existing medical and pharmaceutical businesses and forecast that sales of medical equipment will further increase in the coming year. In the drug development business, we will seek approval to commence Phase I clinical trial for our principal product this year. In Nanjing, we will finish the fitting out and installation of machineries and seek GMP clearance from the SFDA. In Guilin, the Group will continue to support the plantation development for long term investment purpose.

Directors and Senior Executives

Directors

Executive directors

Dr. Li Nga Kuk, James, aged 62, is an Executive Director, Chairman of the Company responsible for the strategic development of the Group. He graduated from 中國上海第二醫學院 in 1970. He was granted medical doctor's licenses in Hong Kong and doctor qualification in US in 1981 and 1987 respectively and worked as a medical doctor in the PRC and Hong Kong during 1975 to 1985. Dr. Li was appointed on 7 September 2001.

Mr. Li Wo Hing, MBA, aged 61, is an Executive Director and the Chief Executive Officer of the Company responsible for the daily management of the Group. He has more than 10 years' experience in the trading of medical products and investment in the PRC. Mr. Li was appointed on 7 September 2001.

Mr. Li Tai To, Titus, aged 68, is an Executive Director and Vice General Manager of the Company responsible for promoting the RFA technology in the PRC. He graduated from 中國上海第一醫學院 and has obtained a medical diploma in Taiwan. He was a surgeon in 浙江嘉興第二醫學院 (Zhenjian Jiaxing No. 2 Hospital). Mr. Li is elder brother of Dr. Li Nga Kuk, James, the Chairman of the Company. Mr. Li was appointed on 7 September 2001.

Non-executive director

Dr. Chen Minshan, aged 43, is a Non-Executive Director. Dr. Chen is a medical doctor and an associate professor, Hepatobiliary Department, Tumor Hospital, Zhong Shan Medical University. Dr. Chen was appointed on 10 December 2001.

Independent non-executive directors

Mr. Fan Wan Tat, aged 63, is an Independent Non-Executive Director. Mr. Fan is a medical doctor in Hong Kong. Mr. Fan was appointed on 10 December 2001.

Mr. Tam Wai Leung, Joseph, aged 42, is an Independent Non-Executive Director. Mr. Tam is the President to the Executive Committee of the Hong Kong Institute of Business Management Limited. He holds a Doctor of philosophy degree from Preston University, USA. Mr. Tam was appointed on 30 September 2004.

Mr. Chan Kim Chung, Daniel, aged 44, is an Independent Non-Executive Director. Mr. Chan is the General Manager of Royal Media Limited that is specialized in the provision of consultancy services in software testing and quality assessment. He holds a doctor of philosophy degree in computer science from the University of Glasgow, United Kingdom. Mr. Chan was appointed on 16 Jun 2006.

Directors and Senior Executives

Senior Management

Ms. Guo Ping, aged 48, is the General Manager of China Best Drug, a subsidiary of the Company. Ms. Guo is a recognized research analyst of medicine in the PRC. She joined the Group in December 2002.

Mr. Zhang Zhenzhong, aged 61, joined the Group in October 2007 as the Chief Executive Officer of (Cambodia) Tong Min, a subsidiary of the Company, who has extensive business experience in Cambodia, including export of timber products from Cambodia and import of equipment and machinery into Cambodia, together with his management team, have substantial experience in managing forestry business including rubber plantation, timber logging, the transportation and trading of timber products, financial management and business planning, as well as factory management.

Mr. Leung Sze Yuan, Alan, aged 39, joined the Group in October 2007 as the Chief Financial Officer of (Cambodia) Tong Min, a subsidiary of the Company, responsible for the financial management and investor relationship of the Group. Mr. Leung is a member of the Institute of Chartered Accountant in Australia and the Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in commerce from the University of New South Wales, Australia and a master degree in business administration from the Chinese University of Hong Kong. Before joining the Company, Mr. Leung was an Associate Director of AIG Investment Corporation responsible for private equity investments in Asia.

Ms. Lai Tin Yin, Fion, aged 45, joined the Group in September 2007 as the Company Secretary and Qualified Accountant of the Company. Ms. Lai holds a master of business administration degree from the City University of Hong Kong. She is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Chartered Secretaries. She has over 10 years experience in auditing and accounting fields by working for a firm of certified public accountants and several private companies.

Consultants

Dr. Chen Min Shan, aged 43, is a consultant of the Company. Dr. Chen is a medical doctor at Tumor Hospital, Zhongshan University, Guangzhou, the PRC. Dr. Chen joined the Group in July 2001.

Mr. Tian Fu Zhou, aged 64, is a consultant of the Company. Mr. Tian is a professor of the Military Hospital of Chengdu, the PRC. He joined the Group in July 2001.

Mr. Wang Guang Tian, aged 71, is a consultant of the Company. Mr. Wang is a professor of the Affiliate Hospital of Henan medical University, the PRC. He joined the Group in July 2001.

Report of the Directors

The directors submit herewith their annual report together with the audited financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2007.

Change of Company Name

Pursuant to a special resolution passed at the SGM held on 2 October 2007 and the approval by the Registrar of Companies in Bermuda, the name of the Company has been changed from "Medical China Limited" to "China Asean Resources Limited". Commencing from 9 November 2007, the shares of the Company were traded on the Stock Exchange under the new stock trading name. The stock trading name of the Company was changed from "MEDICAL CHI" to "CHINA ASEAN RES" and from "神州醫療" to "神州東盟資源" in Chinese. The stock code of the Company remains unchanged.

Principal Activities

The principal activity of the Company is investment holding and historically the Group has principally been engaged in the provision of medical equipment services and related accessories, the provision of medical research and development services and the sales of medical equipment in the PRC. Through the acquisition of a subsidiary in October 2007, the Group expanded into the natural resources business in the Kingdom of Cambodia ("Cambodia").

The principal activities and other particulars of its subsidiaries are set out in note 19 to the financial statements.

Segment Information

An analysis of the Group's revenue and results by business segments and geographical locations of the Company and its subsidiaries during the financial year are set out in note 12 to the financial statements.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 92 of the annual report.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	37%	
Five largest customers in aggregate	18%	
The largest supplier		21%
Five largest suppliers in aggregate		6%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Financial Statements

The result of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 35 to 37.

Dividends and Reserves

The directors do not recommend the payment of any dividend for the year ended 31 December 2007 (2006: Nil).

Details of the movements in reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

Charitable Donations

During the year, the Group made charitable contributions totalling HK$1,326,000 (2006: Nil).

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Convertible Bonds

Details of the convertible bonds are set out in note 27 to the financial statements.

Report of the Directors

Bank Loans

Particulars of bank loans of the Group as at 31 December 2007 are set out in note 26 to the financial statements.

Application of Share Issue Proceeds

During the year ended 31 December 2007, the Company has issued the following shares:

	Date of issue	No. of shares	Share issue price
New Placing Shares	14 August 2007	167,000,000	HK$0.69
Top-up Shares	22 October 2007	233,000,000	HK$0.53
Consideration Shares	22 October 2007	400,000,000	HK$0.188
Conversion Shares	26 October 2007	70,000,000	HK$0.188

The aggregate net share issue proceeds, net of related expenses, of approximately HK$315 million, has substantially been used for the acquisition of the entire equity interest of (Cambodia) Tong Min, and the further expansion of forest exploitation business in Cambodia.

Directors

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

Executive directors

Dr. Li, Nga Kuk James, *Chairman*
Mr. Li, Wo Hing, *Chief Executive Officer*
Mr. Li, Tai To Titus

Non-executive director

Dr. Chen Minshan

Independent non-executive directors

Mr. Fan Wan Tat
Mr. Tam Wai Leung, Joseph
Mr. Chan Kim Chung, Daniel

Pursuant to the Bye-Laws of the Company, Messrs. Li Wo Hing and Tam Wai Leung, Joseph will retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The biographical details of the Directors are set out on pages 14 to 15.

Directors' Service Contracts

On 14 December 2001, all the executive directors entered into a service contract with the Company for an initial term of three years effective from 1 December 2001 and shall continue thereafter. The executive directors are committed by the respective service contracts to devote himself exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments.

The non-executive directors have entered into a service contract with the Company. Messrs Fan Wan Tat and Chen Minshen have renewed a service contract with the Company for a term of one year commencing on 1 December 2007. The service contract of Messrs. Tam Wai Leung, Joseph and Chan Kim Chung, Daniel were renewed for a term of one year commencing on 30 September 2007 and 16 June 2007, respectively.

Save as aforesaid, no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation, of any director proposed for re-election at the forthcoming Annual General Meeting).

Report of the Directors

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2007, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Interests in the Company's shares:

Name	Number of ordinary shares of HK$0.01 each (the "Shares") in the share capital of the Company held	Nature of interests	Percentage of interest
Dr. Li Nga Kuk, James	32,800,000	Personal	1.92%
Mr. Li Wo Hing	32,800,000	Personal	1.92%
	193,360,000	Corporate (Note)	11.34%
	226,160,000		13.26%
	4,000,000	Option granted but not yet exercised	
Mr. Li Tai To, Titus	16,400,000	Personal	0.96%

Note: People Market Management Limited ("PMM"), holding 193,360,000 shares, is owned as to 70.58% by Mr. Li Wo Hing. On 12 October 2007, the Company granted 4,000,000 shares under the Option Scheme to Mr. Li Wo Hing with approval of all independent non-executive directors. Up to the date of this report, no option has been exercised by Mr. Li Wo Hing.

Save as disclosed above, as at 31 December 2007, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by directors, to be notified to the Company and the Stock Exchange.

Share Option Scheme

Pursuant to a written resolution passed by all the shareholders of the Company on 14 December 2001, the Company had conditionally approved and adopted a share option scheme (the "Share Option Scheme").

The principal terms of the Share Option Scheme are set out in the Company's prospectus dated 19 December 2001.

Pursuant to a resolution passed at a meeting of all independent non-executive directors on 12 October 2007, the Group granted share option of 40,000,000 shares to a director and employees of the Group under the Share Option Scheme. As at 31 December 2007, no share option was exercised.

Details of the movements in share options of the Company during the year are set out in note 35 to the financial statements.

Directors' Rights to Acquire Shares or Debt Securities

On 14 December 2001, the Company had conditionally approved and adopted the Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

On 12 October 2007, the Group granted share options of 4,000,000 shares to a director, Mr. Li Wo Hing. Pursuant to Clause 11.1 of the Share Option Scheme and the GEM Listing Rule 23.04(1), share options granted under the Share Option Scheme to Mr. Li Wo Hing must be approved by all the independent non-executive directors of the Company.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or its holding company a party to any arrangement to enable the directors or the chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors

Interests Discloseable under the SFO and Substantial Shareholders

At 31 December 2007, so far as is known to any of the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had an interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of substantial shareholder	Number of shares held	Capacity	Percentage of interests
1. Zhang Jie	266,666,667	Beneficial owner	15.64%
2. PMM (note)	193,360,000	Beneficial owner	11.34%
3. Pen Sophal	133,333,333	Beneficial owner	7.82%
4. UBS AG	103,190,000	Beneficial owner	6.05%
5. Keywise Greater China Master Fund	87,650,000	Beneficial owner	5.14%

Note: As at 31 December 2007, PMM owned 193,360,000 shares, representing approximately 11.34% of the issued share capital of the Company. The issued share capital of PMM is owned as to 70.58% by Mr. Li Wo Hing, as to 19.61% by Dr. Li Nga Kuk, James and as to 9.81% by Mr. Li Tai To, Titus. Mr. Li Wo Hing's indirect interest in the 193,360,000 shares through PMM are also disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 31 December 2007, so far as is known to any of the directors or the chief executive of the Company, no other person (other than a director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted during the year ended 31 December 2007.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Competing Interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interests with the Group.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Pension Schemes

Details of the Group's pension scheme for the year ended 31 December 2007 are set out in note 34 to the financial statements.

Code on Corporate Governance Practices

The board of Directors is committed to achieving and maintaining high standards of corporate governance in managing the business and affairs of the Group as guided by the principles and best practices as set out in the Hong Kong Code on Corporate Governance (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited and developments of recognized best governance practices. These practices are instilled throughout the Group's operations. Further details are set out in the Corporate Governance Report.

In the opinion of the Board, the Company has complied with the Code and adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the year ended 31 December 2007. Having made specific enquiry of all directors of the Company, the Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the year ended 31 December 2007.

Sufficiency of Public Float

Based on the information that is publicly available and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the latest practicable date prior to the issue of the annual report.

Independence Confirmation

The Company has received, from each independent non-executive Director, an annual confirmation of independence pursuant to the GEM Listing Rules. The Board considers all the independent non-executive directors are independent.

Report of the Directors

Audit Committee

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee's primary duties include reviewing Company's annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The Audit Committee comprises the three independent non-executive directors, namely, Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel , and has held 4 meetings during the year under review.

The Audit Committee has reviewed the Company's audited annual report for the year ended 31 December 2007 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Auditors

Kennic L. H. Lui & Co. Ltd. were first appointed as auditors of the Company in 2005 upon the resignation of KPMG.

The financial statements for the year were audited by Kennic L. H. Lui & Co. Ltd., Certified Public Accountants. Kennic L. H. Lui & Co. Ltd. will retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Kennic L. H. Lui & Co. Ltd. as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 19 March 2008

Corporate Governance Report

The Directors believe that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group. The board of Directors of the Company (the "Board") will review the corporate governance structure and practices from time to time and shall make necessary arrangements to ensure business activities and decision making processes are made in a proper and prudent manner.

In the opinion of the Directors, the Company has complied with the provisions as set out in the Code on Corporate Governance Practice (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited for the financial year ended 31 December 2007.

Directors' Securities Transactions

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealing in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2007.

The Board of Directors

Board composition

As at 31 December 2007, the Board comprises 7 directors of the Company including the executive directors of Li Nga Kuk, James, Li Wo Hing and Li Tai To, Titus; the non-executive director of Chan Minshan; and the independent non-executive directors of Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel. The Board of directors is responsible for supervising the management of the Group. Details of the Chairman and the other directors of the Company are set out in the Directors Report. There was no change in the composition of the Board during the year. All directors give sufficient time and attention to the affairs of the Group.

Dr. Li Nga Kuk, James, the Chairman of the Group and one of the executive directors, Mr. Li Tai To, Titus are brothers. Save as disclosed, there is no family or other material relationship among members of the Board.

Corporate Governance Report

Board meetings

The Board meets at least four times each year at approximately quarterly intervals. The directors attended in person or participated through electronic means of communication. At lease 14 days notice of meetings were given to all directors with formal agenda in which a schedule of matters is addressed to the Board. All directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the board meetings. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed.

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing shareholders' value. The Board, led by the Chairman, is responsible for the approval of annual budgets and business plans, evaluation of the Company's performance, formulate the overall strategies of the Group, and decide on other significant matters. Executive of daily operational matters is delegated to management.

During the year, four board meetings were held. Details of the attendance of the Directors are as follows:

	Members' Attendance
Executive Directors	
Li Nga Kuk, James	3/4
Li Wo Hing	4/4
Li Tai To, Titus	4/4
Non-executive Director	
Chen Minshan	0/4
Independent Non-executive Directors	
Fan Wan Tat	4/4
Tam Wai Leung, Joseph	3/4
Chan Kim Chung, Daniel	2/4

Corporate Governance Report

Chairman and Chief Executive Officer

The roles of the Chairman, Dr. Li Nga Kuk, James and the Chief Executive Officer ("CEO"), Mr. Li Wo Hing are segregated. This segregation ensures a clear distinction between the Chairman's and CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability. There is no financial, business, family or other relationship between the Chairman and the CEO.

Dr. Li, as the Chairman of the Company, has overall responsibility for providing leadership, vision and direction in the development of the business of the Company. He ensures that:

– the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board in a timely manner;

– the responsibilities for drawing up the agenda for each Board meeting and, where appropriate, taking into account any matters proposed by each Director for inclusion in the agenda have been duly delegated to the Company Secretary; and

– good corporate governance practices and procedures are established and encourages all Directors to make full and active participation to the affairs of the Group.

Mr. Li, as the CEO, is responsible for the day-to-day management of the business of the Group, attends to formulation and implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the executive management team, he ensures the smooth operations and development of the Group. He maintains a continuing dialogue with the Chairman and all Directors and keeps them fully informed of all major business developments and issues.

Non-executive directors

The presence of four non-executive directors, of whom three are independent, is considered by the Board to be a reasonable balance between executive and non-executive directors. The Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of shareholders and the Group. The non-executive directors provide to the Group a wide range of expertise and experience and play an important role in the work of the Board of Directors, as well as ensure that the interests of all shareholders are taken into account. They contribute significantly to the development of the Group's strategies and policies through their informed comments and criticism. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on Audit, Remuneration and Nomination committees, and scrutinizing the Group's performance and reporting. Through their active participation, they give to the Board the benefit of their skills, expertise and background experience, and the management process can be critically reviewed and controlled.

Corporate Governance Report

In full compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Group has received from each independent non-executive director an annual confirmation of his independence, and the Group considers such directors to be independent in accordance with each and every guideline set out in rule 5.09 of the GEM Listing Rules. No independent non-executive director has served the Group for more that nine years.

All independent non-executive directors are identified as such in all corporate communications containing the names of the directors.

Term of appointment and re-election

All directors, including the executive and non-executive directors, are appointed for a term of one year and renewed with the board approval. All directors would retire from office by rotation and are subject to re-election at annual general meeting once every three years. Pursuant to the Bye-Laws of the Company, Messrs. Li Wo Hing and Tam Wai Leung, Joseph will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Remuneration Committee

The Remuneration Committee was established in 2005 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee is made available on request. On 19 March 2008, the Remuneration Committee comprises three members, the Chairman of the committee is Mr. Fan Wan Tat, an independent non-executive director of the Company, and other members include Mr. Tam Wai Leung, Joseph and Mr. Li Wo Hing, the majority also being independent non-executive directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. The Committee consults with the Chairman and the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice if deemed necessary by the Committee. The Committee is also provided with other resources enabling it to discharge its duties. The terms of reference of the Remuneration Committee is written in compliance with the GEM Listing Rules.

The Remuneration Committee held two meetings during the year to review the remuneration package of executive directors, non-executive directors and senior management. Mr. Tam Wai Leung, Joseph, Mr. Fan Wan Tat and Mr. Li Wo Hing attended this meeting. The Remuneration Committee proposed to review the existing remuneration package of executive directors, non-executive directors, independent non-executive directors and senior management following the acquisition of forest exploitation business and further expansion of operations in Cambodia. Mr. Li Wo Hing is not counted in the quorum on the review of his own remuneration package.

	Members' Attendance
Executive Director	
Li Wo Hing	2/2
Independent Non-executive Directors	
Fan Wan Tat	2/2
Tam Wai Leung, Joseph	2/2

Nomination Committee

The Nomination Committee was established in 2005 with specific terms of reference. The Chairman of the committee is Mr. Tam Wai Leung, Joseph, an independent non-executive director of the Company, and other members include Mr. Fan Wai Tat and Dr. Li Nga Kuk, James, the majority is being independent non-executive directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of directors and board succession. The Committee will also develop selection procedures of candidates for nomination, review the size, structure and composition of the Board, as well as assess the independence of independent non-executive directors. The Committee is provided with sufficient resources enabling it to discharge its duties.

The terms of reference of the Nomination Committee is written in compliance with the GEM Listing Rules.

Corporate Governance Report

The Nomination Committee held a meeting on 19 March 2008 to review the structure, size and composition of the Company's Board of Directors. Mr. Fan Wan Tat and Dr. Li Nga Kuk, James attended this meeting. Given the expansion of business operation in Cambodia, the Nomination Committee recommended new members with expertise in forestry, wood products business and financial management to be appointed in the near term. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications, experience and background of the relevant candidates for determining the suitability to the Group.

	Members' Attendance
Executive Director	
Dr. Li Nga Kuk	1/1
Independent Non-executive Directors	
Fan Wan Tat	1/1
Tam Wai Leung, Joseph	0/1

Audit Committee

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, other price-sensitive announcements and other financial disclosures. Management provides all relevant information and record to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures.

In full compliance with rule 5.28 of the GEM Listing Rules, the Audit Committee, established in 2002, is currently chaired by Mr. Fan Wan Tat, an independent non-executive director, and the other members are Mr. Tam Wai Leung, Joseph and Chan Kim Chung, Daniel, with all being independent non-executive directors of the Company.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year under review.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the auditors' report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. Other duties of the Audit Committee are set out in its terms of reference, which is written in compliance with the GEM Listing Rules.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Audit Committee met four times to review the quarterly and annual results of the Group during the year ended 31 December 2007, which were attended by majority of members. Full minutes of the Audit Committee are kept by the Company Secretary.

	Members' Attendance
Executive Directors	
Li Nga Kuk, James	3/4
Li Wo Hing	4/4
Li Tai To, Titus	4/4
Non-executive Director	
Chen Minshan	0/4
Independent Non-executive Directors	
Fan Wan Tat	4/4
Tam Wai Leung, Joseph	3/4
Chan Kim Chung, Daniel	2/4

Auditors' Remuneration

As at 31 December 2007, the fees payable to the auditors in respect of the audit and non-audit services provided by the auditors are as follows:

Type of services	Amount (HK$'000)
Audit services	1,059
Non-audit services	344

Internal Control

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing such systems' effectiveness. The Board will from time to time conduct a review of the Group's internal control systems. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions.

Corporate Governance Report

Delegation by the Board

The Board is responsible for decision in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relative to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and executive of the strategic business plans are delegated to management.

All committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, have their terms of reference clearly defining the powers and responsibilities of the respective committees. All committees are required to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situation, to seek the Board's approval before taking any actions.

The Board reviews, on yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

Investor Relations and Shareholders' Right

The Company uses a number of channels to communicate to shareholders and investors for the performance of the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging view with the Board; (iii) key information of the Group available on the website of the Company; and (iv) the Company's share registrars in Hong Kong serving the shareholders on all share registration matters.

The Company aims to provide its shareholders and investors with high standard of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of quarterly and annual reports, dispatching circular, notices, and other announcements.

The Company strives to take into consideration its shareholders' views and inputs, and address shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman as well as chairmen of Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, Directors are available to answer shareholders' questions on the Group's business at the meetings. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda for consideration.

Independent Auditor's Report

K
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呂禮恒會計師事務所有限公司

Kennic L. H. Lui & Co. Ltd.

Certified Public Accountants (Practising)

To the shareholders of

China Asean Resources Limited

(Formerly known as "Medical China Limited")

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of China Asean Resources Limited (the "Company") set out on pages 35 to 91, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

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

Independent Auditor's Report

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

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

Opinion

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

Kennic L. H. Lui & Co. Ltd.
Certified Public Accountants (Practising)
Lau Wu Kwai King, Lauren
Practising Certificate No. P02651

Hong Kong, 19 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	4	**38,443**	34,979
Cost of services/sales		**(18,789)**	(14,080)
Gross profit		**19,654**	20,899
Other revenue	5	**4,114**	2,135
Selling and distribution expenses		**(11,790)**	(6,939)
Administrative expenses		**(25,178)**	(10,239)
Impairment loss recognised in respect of:			
Biological assets	15	**(6,785)**	–
Inventories	20	**–**	(710)
Intangible assets	17	**–**	(29,667)
Other operating expenses		**(1,645)**	(1,951)
Loss from operations		**(21,630)**	(26,472)
Finance costs	6	**(244)**	(271)
Loss before taxation	6	**(21,874)**	(26,743)
Taxation	7	**(24)**	(211)
Loss for the year		**(21,898)**	(26,954)
Attributable to:			
Equity holders of the Company	32	**(21,989)**	(29,378)
Minority interests	32	**91**	2,424
		(21,898)	(26,954)
Loss per share (Hong Kong cents)			
Basic	11	**(2.12)**	(3.52)

The notes on pages 41 to 91 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	13	**7,379**	7,473
Biological assets	15	**88**	2,426
Construction in progress	14	**18,189**	6,447
Interests in leasehold land held for own use under operating leases	16	**2,563**	2,509
Intangible assets	17	**287,161**	28,090
		315,380	46,945
Current assets			
Inventories	20	**6,019**	5,234
Trade and other receivables	21	**54,016**	12,422
Deposits with bank	24	**–**	57,928
Cash at bank and on hand	25	**99,400**	12,029
		159,435	87,613
Current liabilities			
Trade and other payables	28	**69,391**	30,075
Bank loan	26	**–**	3,484
Taxation	30	**284**	240
		69,675	33,799
Net current assets		**89,760**	53,814
Net assets		**405,140**	100,759
Capital and reserves			
Share capital	31	**17,050**	8,350
Reserves	32(a)	**381,215**	86,070
Total equity attributable to:			
Equity holders of the Company		**398,265**	94,420
Minority interests	32(a)	**6,875**	6,339
Total equity		**405,140**	100,759

Approved and authorised for issue by the Board of Directors on 19 March 2008.

Li Nga Kuk, James	**Li Wo Hing**
Chairman	*Director*

The notes on pages 41 to 91 form part of these financial statements.

Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	13	–	49
Investment in subsidiaries	19	**261,335**	55,755
		261,335	55,804
Current assets			
Trade and other receivables	21	**15,107**	15
Amounts due from subsidiaries	22	**133,548**	84,468
Cash at bank and on hand	25	**67,839**	121
		216,494	84,604
Current liabilities			
Trade and other payables	28	**2,173**	1,016
Amounts due to subsidiaries	29	**117,271**	79,792
		119,444	80,808
Net current assets		**97,050**	3,796
Net assets		**358,385**	59,600
Capital and reserves			
Share capital	31	**17,050**	8,350
Reserves	32(b)	**341,335**	51,250
Total equity		**358,385**	59,600

Approved and authorised for issue by the Board of Directors on 19 March 2008.

Li Nga Kuk, James	**Li Wo Hing**
Chairman	*Director*

The notes on pages 41 to 91 form part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Contributed surplus**	**Capital reserve**	**Exchange reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	8,350	70,733	5,265	–	2,724	33,382	120,454	3,734	124,188
– Currency translation differences	–	–	–	–	3,344	–	3,344	181	3,525
Loss for the year	–	–	–	–	–	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	8,350	70,733	5,265	–	6,068	4,004	94,420	6,339	100,759
At 1 January 2007	8,350	70,733	5,265	–	6,068	4,004	94,420	6,339	100,759
Issue of shares	4,000	71,200	–	–	–	–	75,200	–	75,200
Conversion of shares	700	12,460	–	–	–	–	13,160	–	13,160
New share placement	1,670	113,560	–	–	–	–	115,230	–	115,230
Top-up placement	2,330	121,160	–	–	–	–	123,490	–	123,490
Premium reduction upon issue of shares	–	(9,330)	–	–	–	–	(9,330)	–	(9,330)
Employees share options scheme	–	–	–	1,875	–	–	1,875	–	1,875
– Currency translation differences	–	–	–	–	6,209	–	6,209	445	6,654
Loss for the year	–	–	–	–	–	(21,989)	(21,989)	91	(21,898)
At 31 December 2007	**17,050**	**379,783**	**5,265**	**1,875**	**12,277**	**(17,985)**	**398,265**	**6,875**	**405,140**

The notes on pages 41 to 91 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Loss before taxation		**(21,874)**	(26,743)
Adjustments for:			
Depreciation		**1,044**	1,235
Impairment losses recognised in respect of:			
Biological assets		**6,785**	–
Inventories		**–**	710
Intangible assets		**–**	29,667
Amortisation of prepaid lease payments		**123**	39
Amortisation of intangible assets:			
Forest exploitation rights		**3,757**	–
Others		**364**	346
Employees share options scheme		**1,875**	–
Bad debts written off		**1,088**	756
Interest income on financial assets not at fair value through the income statement		**(2,279)**	(1,207)
Finance costs		**244**	271
Operating profit/(loss) before changes in working capital		**(8,873)**	5,074
(Increase)/decrease in inventories		**(1,651)**	257
(Increase)/decrease in trade and other receivables		**(41,540)**	120
Increase in trade and other payables		**9,508**	1,756
Decrease in amount due to a director		**–**	(200)
Cash generated from/(used in) operations and net cash from/(used in) operating activities		**(42,556)**	7,007
Cash flows from investing activities			
Capital expenditure:			
Property, plant and equipment		**(447)**	(460)
Interests in leasehold land held for own use under operating leases		**–**	(164)
Construction in progress		**(8,764)**	(4,781)
Biological assets		**(4,534)**	(2,426)
Aquisition of a subsidiary	18	**(50,000)**	–
Forest exploitation rights		**(27,300)**	–
(Increase)/decrease in placement of deposits with banks		**62,153**	(3,185)
Interest received		**2,279**	1,207
Net cash used in investing activities		**(26,613)**	(9,809)

The notes on pages 41 to 91 form part of these financial statements.

Consolidated Cash Flow Statement

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from financing activities			
Interest paid		**(244)**	(271)
New share placement		**115,890**	–
Top-up placement		**122,830**	–
Redemption of bonds		**(70,000)**	–
Shares issue expenses		**(9,330)**	–
Proceeds from a new bank loan		**–**	3,484
Repayment of bank loan		**(3,484)**	(4,326)
Net cash from/(used in) financing activities		**155,662**	(1,113)
Net increase/(decrease) in cash and cash equivalents		**86,493**	(3,915)
Cash and cash equivalents at beginning of the year		**12,029**	15,398
Effect of foreign exchange rate changes		**878**	546
Cash and cash equivalents at end of the year	25	**99,400**	12,029

The notes on pages 41 to 91 form part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2007

1. General

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 19 to the financial statements.

2. Changes in Accounting Policies

(a) Adoption of New and Revised Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in the financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as set out below.

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosures given the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation.*

The amendment to HKAS 1 introduces additional disclosure requirements to provide information on the level of capital and the Group's and the Company's objectives, policies and processes for managing capital.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

Notes to the Financial Statements

2. Changes in Accounting Policies *(Continued)*

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making assessments of what the impact of these amendments, new standards and new interpretations are expected to be in the period of initial application. So far it has concluded that the adoption thereof is unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 8, *Operating segments* may result in new or amended disclosures in the financial statements. HKAS 1, *Presentation of Financial Statements (revised December 2007)* will have an impact on the presentation of the Group's financial statements. Both standards will be effective for annual periods beginning on or after 1 January 2009.

3. Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair values through the income statement.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. Significant Accounting Policies *(Continued)*

(b) Basis of preparation of the financial statements *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

(c) Basis of consolidation

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

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Capital reserves arising on consolidation, which represent the deficit of costs over fair values attributed to the net assets of subsidiaries acquired, are credited directly to reserves on consolidation.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements

3. Significant Accounting Policies *(Continued)*

(e) Subsidiaries and minority interests

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to a minority interest exceeds the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses.

3. Significant Accounting Policies *(Continued)*

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in the income statement. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Medical equipment	Shorter of 6 years and the remaining terms of the agreements with hospitals
Buildings	Shorter of 50 years and the remaining terms of the leases
Office, computers and other equipment	5 years
Motor vehicles	5 years

Both the useful life of assets and their residual values, if any, are reviewed annually.

Notes to the Financial Statements

3. Significant Accounting Policies *(Continued)*

(g) Construction in progress

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified in note 3(f) above.

(h) Intangible assets (other than goodwill)

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Forest exploitation right, medical research projects and other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

3. Significant Accounting Policies *(Continued)*

(h) Intangible assets (other than goodwill) *(continued)*

Amortisation of intangible assets with finite life is charged to the income statement on the straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Forest exploitation rights	70 years
Medical research projects	5 to 10 years
Other intangible assets	5 to 10 years

Both the period and method of amortisation are reviewed annually.

(i) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that these assets have suffered impairment losses. 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. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

3. Significant Accounting Policies *(Continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(l) Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

3. Significant Accounting Policies *(Continued)*

(l) Taxation *(continued)*

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

A deferred tax asset is also recognised for the carryforward of unused tax losses, to the extent it is probable that taxable profits will be available against which the carryforward of the unused tax losses can be utilised.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Notes to the Financial Statements

3. Significant Accounting Policies *(Continued)*

(p) Provisions and contingent liabilities *(continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

(i) Medical service fees

Medical service fees are recognised at the time when services are rendered, net of business taxes.

(ii) Sales of goods

Sales of goods are recognised when goods are delivered and title has passed. Revenue excludes value-added tax and is after deduction of any trade discounts.

(iii) Research and development service income

Revenue is recognised when the outcome on a research and development contract can be measured reliably. Revenue from a fixed price research and development contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a research and development contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable will be recoverable.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

3. Significant Accounting Policies *(Continued)*

(r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases.

Rental payables under operating leases are charged to the income statement on the straight-line basis over the periods of the relevant leases.

Land lease prepayments are stated at cost less accumulated amortisation and any impairment, and are amortised over the remaining lease terms on the straight-line basis to the income statement.

(s) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as employer vest fully with the employees when contributed into the Scheme.

The Group has joined a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the Scheme. The employer's contributions vest fully once they are made.

Notes to the Financial Statements

3. Significant Accounting Policies *(Continued)*

(s) Employee benefits *(continued)*

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount recognised in capital reserve until either the option is exercised (when it is transferred to share premium account) or the option expires (when it is released directly to retained profits).

(t) Foreign currencies

(i) Functional and presentation currency

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

3. Significant Accounting Policies *(Continued)*

(t) Foreign currencies *(continued)*

(ii) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated using the foreign exchange rates ruling at the dates the fair values were determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly as a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(u) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements

3. Significant Accounting Policies *(Continued)*

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting systems, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

3. Significant Accounting Policies *(Continued)*

(w) Segment reporting *(continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances and corporate and financing expenses.

(x) Biological assets

Biological assets are living animals and/or plants managed by the Group which is involved in the agricultural activities of transformation of biological assets for sale, into agricultural produce, or into additional biological assets. Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and less any impairment losses at each balance sheet date. The fair value of biological assets are determined based on either the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate or the market price with reference to the species, growing condition, cost incurred and expected yield of the crops.

The agricultural produce is initially measured at fair value less estimated point-of-sale costs at the time of harvest. The fair value of agricultural produce is measured at the market prices in the local market. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing.

The gain or loss arising on initial recognition of biological asset at fair value less estimated point-of-sale costs and any impairment losses is recognised in the consolidated income statement for the period in which it arises.

Notes to the Financial Statements

3. Significant Accounting Policies *(Continued)*

(y) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

4. Turnover

Turnover represents service fees arising from the provision of medical equipment services and sales of related accessories, net of respective taxes; the sale value of medical equipment, net of value-added tax; and service fees arising from the provision of medical research and development services, net of business tax.

Pursuant to various agreements with hospitals in the People's Republic of China (the "PRC"), the Group agrees to locate certain medical equipment at the relevant hospitals and, in return, share the medical service fees arising from the utilisation of the medical equipment after deducting the related direct expenses.

Turnover recognised during the year is analysed as follows:

	2007 HK$'000	2006 HK$'000
Medical equipment service fees and sales of related accessories	112	5,669
Sales of medical equipment	38,243	27,994
Research and development service fees	88	1,316
	38,443	34,979

5. Other Revenue

	2007 HK$'000	2006 HK$'000
Bank interest income	2,279	1,207
Interest income on financial assets not at fair value through the income statement	2,279	1,207
Foreign exchange loss	–	(1)
Miscellaneous	1,835	929
	4,114	2,135

Notes to the Financial Statements

6. Loss before Taxation

Loss before taxation is arrived at after charging:

	2007 HK$'000	2006 HK$'000
Finance costs:		
Interest expense on bank loan	**155**	271
Interest expense on bonds	**89**	–
Total interest expense on financial liabilities not at fair value through the income statement	**244**	271
Staff costs:		
Staff costs (including directors' remuneration in Note 8)		
Wages and salaries	**8,657**	6,098
Share options granted to a director and employees	**1,875**	–
Staff retirement benefits	**795**	17
	11,327	6,115
Average number of employees during the year (2007: 227; 2006: 198)		
Other items:		
Cost of inventories (Note 20)	**18,437**	14,192
Depreciation	**1,044**	1,235
Bad debts written off	**1,088**	756
Auditors' remuneration		
Audit services	**1,059**	693
Other services	**344**	34
Operating lease charges in respect of office premises	**415**	547
Amortisation of prepaid lease payments	**123**	39
Amortisation of intangible assets:		
Forest exploitation rights	**3,757**	–
Others	**364**	346
Research and development costs	**1,630**	1,941
Impairment losses recognised in respect of:		
Biological assets	**6,785**	–
Inventories	**–**	710
Intangible assets	**–**	29,667

7. Taxation

(a) Taxation in the consolidated income statement represents:

	2007 **HK$'000**	2006 HK$'000
Current tax – PRC tax for the year	**24**	211

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits chargeable to such tax during the year.

(ii) PRC Income Tax

The Company's subsidiary, Tat Lung Medical Treatment (Shenzhen) Ltd. ("Tat Lung Treatment"), located in the Shenzhen Special Economic Zone ("SSEZ") in the PRC, is subject to PRC Income Tax at the reduced rate of 15% (2006: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC Income Tax of 33% (2006: 33%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment and Sinnowa obtained approval from the state tax bureau that they are entitled to 100% relief from PRC Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

No provision for PRC Income Tax has been made for the Company's other subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), China Best Pharmaceutical (Nanjing) Company Ltd. ("CB Pharmaceutical") and Guilin Simei Biotechnology Ltd. ("Guilin Simei") as they did not have assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

(iii) Cambodia Tax on Profit

No provision for Cambodia Tax on Profit has been made for the Company's subsidiary, (Cambodia) Tong Min Group Engineering Co., Ltd. ("(Cambodia) Tong Min") as it did not have any assessable profits for the year determined in accordance with the relevant tax rules and regulations in Cambodia.

Notes to the Financial Statements

7. Taxation *(Continued)*

(b) Reconciliation between taxation and loss before taxation at applicable tax rates:

	2007		2006	
	HK$'000	**%**	HK$'000	%
Loss before taxation	**(21,874)**		(26,743)	
Notional tax on loss before taxation, calculated at the rates applicable to the countries concerned	**(5,312)**	**24.3**	(3,425)	12.8
Tax effect of non-deductible expenses	**5,446**	**(24.9)**	6,116	(22.9)
Tax effect of concession period	**(110)**	**0.5**	(2,480)	9.3
Taxation for the year	**24**	**(0.1)**	211	(0.8)

The tax rate applicable to the Group's operations in Hong Kong is 17.5% (2006: 17.5%). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. The applicable income tax rate for Cambodia is 20%. The applicable income tax rate for the Group's PRC operations is 33% (2006: 33%) except for a subsidiary which is located in SSEZ in the PRC for which the applicable income tax rate is 15% (2006: 15%). These tax rates are taken into account in the preparation of the Group's tax reconciliation.

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2006: HK$ Nil).

8. Directors' Remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors fees		Salaries, allowances and benefits in kind		Employees share options scheme (Note)		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Executive directors								
Li Nga Kuk, James	**–**	–	**152**	152	**–**	–	**152**	152
Li Wo Hing	**–**	–	**–**	–	**188**	–	**188**	–
Li Tai To, Titus	**–**	–	**152**	152	**–**	–	**152**	152
Non-executive director								
Chen Minshan	**60**	60	**–**	–	**–**	–	**60**	60
Independent non-executive directors								
Guo Guoqing	**–**	28	**–**	–	**–**	–	**–**	28
Fan Wan Tat	**60**	60	**200**	–	**–**	–	**260**	60
Tam Wai Leung, Joseph	**60**	60	**68**	–	**–**	–	**128**	60
Chan Kim Chung, Daniel	**60**	32	**32**	–	**–**	–	**92**	32
	240	240	**604**	304	**188**	–	**1,032**	544

The remuneration of each of the directors is within the Nil – $1,000,000 band.

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2007.

The Executive Directors entered into service contracts with the Company for an initial period of three years commencing on 1 December 2001. Thereafter, they are appointed for one year terms of renewal with the Board's approval.

Note:

These represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of theses share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(s)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 35.

Notes to the Financial Statements

9. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one (2006: two) is director whose emolument is disclosed in note 8. The aggregate of the emoluments in respect of the remaining four (2006: three) individuals are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries, allowances and other benefits	**399**	498
Discretionary bonuses	**12**	12
Employees share options scheme	**1,313**	–
Retirement benefit scheme contributions	**11**	17
	1,735	527

The emoluments of the remaining four (2006: three) individuals with the highest emoluments are within the following band:

	2007	2006
	Number of individuals	Number of individuals
Nil – $1,000,000	**4**	3

10. Loss Attributable to Equity Holders of the Company

The consolidated loss attributable to equity holders of the Company includes a loss of HK$20,840,000 (2006: HK$6,365,000) which has been dealt with in the financial statements of the Company.

11. Loss Per Share

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2007 is based on the loss attributable to equity holders of the Company of HK$21,989,000 (2006: loss of HK$29,378,000) divided by the weighted average number of 1,035,036,000 (2006: 835,000,000) ordinary shares in issue during the year,

Weighted average number of ordinary shares

	2007	2006
	'000	'000
Issued ordinary shares at 1 January	**835,000**	835,000
Effect of issue of shares (Note 31)	**77,808**	–
Effect of conversion of shares (Note 31)	**12,850**	–
Effect of new share placement (Note 31)	**64,055**	–
Effect of top-up placement (Note 31)	**45,323**	–
Weighted average number of ordinary shares at 31 December	**1,035,036**	835,000

(b) Diluted loss per share

No diluted loss per share for the years ended 31 December 2007 and 2006 have been presented because there were no potential dilutive ordinary shares in existence during the respective years.

12. Segment Information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

Medical services: provision of medical equipment for the treatment of cancer.

Sales of medical equipment: manufacture and sale of medical equipment.

Research and development: development of drugs.

Natural resources: forestry business and rubber plantation for latex production.

Notes to the Financial Statements

12. Segment Information *(Continued)*

(a) Business segments *(continued)*

	Medical services		Sales of medical equipment		Research and development		Natural resources		Unallocated		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Revenue from external customers	**112**	5,669	**38,243**	27,994	**88**	1,316	**–**	–	**–**	–	**38,443**	34,979
Segment results	**(770)**	1,669	**(1,036)**	6,204	**(1,153)**	(30,467)	**(5,501)**	–	**–**	–	**(8,460)**	(22,594)
Unallocated operating income and expenses											**(13,170)**	(3,878)
Loss from operations											**(21,630)**	(26,472)
Finance costs											**(244)**	(271)
Taxation											**(24)**	(211)
Loss for the year											**(21,898)**	(26,954)
Attributable to:												
Equity holders of the Company											**(21,989)**	(29,378)
Minority interests											**91**	2,424
											(21,898)	(26,954)
Depreciation for the year	**83**	378	**606**	367	**242**	237	**–**	–	**113**	253	**1,044**	1,235
Impairment losses for the year:												
Biological assets	**–**	–	**–**	–	**–**	–	**–**	–	**6,785**	–	**6,785**	–
Inventories	**–**	710	**–**	–	**–**	–	**–**	–	**–**	–	**–**	710
Intangible assets	**–**	–	**–**	–	**–**	29,667	**–**	–	**–**	–	**–**	29,667
Bad debts written off	**109**	–	**972**	727	**7**	29	**–**	–	**–**	–	**1,088**	756
Amortisation for the year:												
Forest exploitation rights	**–**	–	**–**	–	**–**	–	**3,757**	–	**–**	–	**3,757**	–
Other intangible assets	**–**	–	**364**	346	**–**	–	**–**	–	**–**	–	**364**	346
Prepaid lease payments	**–**	–	**41**	39	**–**	–	**–**	–	**82**	–	**123**	39
Segment assets	**9,069**	60,027	**31,277**	26,324	**39,008**	31,466	**279,337**	–	**–**	–	**358,691**	117,817
Unallocated assets											**116,124**	16,741
Total assets											**474,815**	134,558
Segment liabilities	**(2,628)**	(2,122)	**(11,633)**	(8,265)	**(745)**	(615)	**(27,334)**	–	**–**	–	**(42,340)**	(11,002)
Unallocated liabilities											**(27,335)**	(22,797)
Total liabilities											**(69,675)**	(33,799)
Capital expenditure incurred during the year	**–**	5	**6,906**	392	**–**	–	**263,126**	–	**9,181**	7,434	**279,213**	7,831

12. Segment Information *(Continued)*

(b) Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. The PRC is a major market for all of the Group's businesses, except for natural resources, and it is the location of most of its medical services, sales of medical equipment and research and development services conducted. Russia is another major market for sales of medical equipment, apart from the PRC. In Cambodia, the only business is the natural resources business where the operations are yet to be conducted during the year ended 31 December 2007.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers, while segment assets is based on the geographical location of the assets.

	The PRC		Russia		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**17,366**	23,765	**6,767**	203	**14,310**	11,011	**38,443**	34,979

	The PRC		Hong Kong		Cambodia		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**112,506**	134,345	**82,972**	213	**279,337**	–	**474,815**	134,558

Notes to the Financial Statements

13. Property, Plant and Equipment

(a) The Group

	Buildings HK$'000	Medical equipment HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000
Cost					
At 1 January 2006	6,940	11,068	2,292	1,865	22,165
Additions	29	–	–	431	460
Transfer from construction in progress (Note 14)	18	–	–	–	18
Disposals	–	(10,728)	–	–	(10,728)
Cost adjustment*	(894)	–	–	–	(894)
Exchange adjustments	246	169	53	62	530
At 31 December 2006	6,339	509	2,345	2,358	11,551
At 1 January 2007	6,339	509	2,345	2,358	11,551
Additions	–	–	139	308	447
Disposals	–	(105)	–	–	(105)
Exchange adjustments	463	14	112	164	753
At 31 December 2007	**6,802**	**418**	**2,596**	**2,830**	**12,646**
Aggregate depreciation					
At 1 January 2006	590	10,729	1,087	917	13,323
Charge for the year	8	278	507	442	1,235
Write-back on disposal	–	(10,728)	–	–	(10,728)
Exchange adjustments	21	164	24	39	248
At 31 December 2006	619	443	1,618	1,398	4,078
At 1 January 2007	619	443	1,618	1,398	4,078
Charge for the year	220	23	352	449	1,044
Write-back on disposal	–	(105)	–	–	(105)
Exchange adjustments	54	10	74	112	250
At 31 December 2007	**893**	**371**	**2,044**	**1,959**	**5,267**
Net book value					
At 31 December 2007	**5,909**	**47**	**552**	**871**	**7,379**
At 31 December 2006	5,720	66	727	960	7,473

* Cost adjustment represents the adjustment on building cost transferred from construction in progress during the year 2004 upon final settlement of related construction contract.

13. Property, Plant and Equipment *(Continued)*

(b) The Company

	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	HK$'000	HK$'000
Cost			
At 1 January 2006 and at 31 December 2006	803	115	918
At 1 January 2007 and **at 31 December 2007**	**803**	**115**	**918**
Aggregate depreciation			
At 1 January 2006	616	70	686
Charge for the year	160	23	183
At 31 December 2006	776	93	869
At 1 January 2007	776	93	869
Charge for the year	27	22	49
At 31 December 2007	**803**	**115**	**918**
Net book value			
At 31 December 2007	–	–	–
At 31 December 2006	27	22	49

(c) At 31 December 2007, one of the buildings amounting to HK$5,865,000 (2006: HK$5,676,000) had been pledged to a bank as security for Group's bank borrowings and banking facilities.

(d) All buildings of the Group are situated in the PRC.

Notes to the Financial Statements

14. Construction in Progress

	The Group	
	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**6,447**	760
Additions	**11,272**	4,781
Cost adjustments*	**–**	894
Transfer to property, plant and equipment (Note 13(a))	**–**	(18)
Exchange adjustments	**470**	30
Balance at end of the year	**18,189**	6,447

* Cost adjustment represents the adjustment on building cost transferred from construction in progress during the year 2004 upon final settlement of the related construction contract.

15. Biological Assets

	Trees in plantation forest
	HK$'000
Cost/Valuation	
At 1 January 2006	–
Additions	2,426
At 31 December 2006	2,426
At 1 January 2007	2,426
Additions	4,534
Impairment loss	(6,785)
Exchange adjustments	(87)
At 31 December 2007	**88**

Biological assets represent trees in a plantation forest and are stated at fair values less estimated point-of-sale costs and impairment losses, if any. The trees in the plantation forest are Osmanthus Frangans, commonly referred to as Tea Olive trees（桂花樹）in Guilin, the PRC. The Group experienced losses on its plantation development due to the poor climate conditions, including drought earlier in the year and the more recent heavy snow storms affecting Central and Southern China. In the light of such damage, particularly to young plants, the Board reassessed its plantation development plans and made an impairment loss of HK$6,785,000 for the year.

16. Interests in Leasehold Land Held for Own Use under Operating Leases

	The Group
	HK$'000
Cost	
At 1 January 2006	2,386
Additions	164
Exchange adjustments	85
At 31 December 2006	2,635
Additions	–
Exchange adjustments	191
At 31 December 2007	**2,826**
Accumulated amortisation	
At 1 January 2006	83
Charge for the year	39
Exchange adjustments	4
At 31 December 2006	126
Charge for the year	123
Exchange adjustments	14
At 31 December 2007	**263**
Net book value	
At 31 December 2007	**2,563**
At 31 December 2006	2,509

(a) The leasehold land assets held by the Group are under medium term leases and situated in the PRC.

(b) At 31 December 2007, one of the leasehold land assets amounting to HK$1,109,000 (2006: HK$1,074,000) had been pledged to a bank as security for Group's bank borrowings and banking facilities.

Notes to the Financial Statements

17. Intangible Assets

The Group	**Forest exploitation rights**	**Medical research projects**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Cost				
At 1 January 2006	–	83,940	2,413	86,353
Exchange adjustments	–	67	55	122
At 31 December 2006	–	84,007	2,468	86,475
Additions	262,960	–	–	262,960
– through acquisition of a subsidiary	208,360	–	–	208,360
– by the Group	54,600	–	–	54,600
Exchange adjustments	–	145	180	325
At 31 December 2007	**262,960**	**84,152**	**2,648**	**349,760**
Accumulated amortisation				
At 1 January 2006	–	27,625	745	28,370
Impairment loss	–	29,667	–	29,667
Exchange adjustments	–	–	2	2
Charge for the year	–	–	346	346
At 31 December 2006	–	57,292	1,093	58,385
Exchange adjustments	–	–	93	93
Charge for the year	3,757	–	364	4,121
At 31 December 2007	**3,757**	**57,292**	**1,550**	**62,599**
Net book value				
At 31 December 2007	**259,203**	**26,860**	**1,098**	**287,161**
At 31 December 2006	–	26,715	1,375	28,090

17. Intangible Assets *(Continued)*

Forest exploitation rights

The Group acquired an exclusive right to exploit the forest located in Kratie District, Kratie Province, Cambodia (the "Forest") for a period of 70 years during the year ended 31 December 2007. The forest exploitation rights are stated at cost less accumulated amortisation and impairment losses.

Amortisation of forest exploitation rights are charged to the income statement on the straight-line basis over the assets' estimated useful lives of 70 years. At 31 December 2007, the directors of the Company reviewed the carrying values of the forest exploitation rights, taking into account an independent valuation report prepared by a professional valuer. Based on the assessment and the valuation report, the directors are of the opinion that there are currently no indications that the values of the forest exploitation rights may be impaired.

Medical research projects

In 2003, the Group acquired certain in-process medical research projects. The acquisition cost was allocated to each individual medical research project based on its estimated fair value at the acquisition date, after taking into account an independent valuation of these medical research projects.

At 31 December 2006, the directors of the Company reviewed the carrying value of these medical research projects individually, taking into account an updated independent valuation report, the future development resources required, the stage of completion and the risks surrounding the successful development and commercialisation of the projects. While there is inherent uncertainty over the outcome of these projects, based on their assessment, the directors consider that an impairment loss of HK$29,667,000 is required for the year ended 31 December 2006.

At 31 December 2007, the directors of the Company reassessed the carrying value of the remaining project, by using the same methodology as described above. Based on the reassessment, the directors consider that there is currently no indication that the remaining project may be impaired and therefore, no impairment loss has been made for the year ended 31 December 2007.

Notes to the Financial Statements

18. Acquisition of a Subsidiary

On 22 October 2007, China Cambodia Resources Limited, a wholly-owned subsidiary of the Group, acquired the entire equity interest of (Cambodia) Tong Min for a total consideration of HK$208,360,000. The fair values of the net assets acquired were as follows:

	Book value	Fair value adjustment	Fair value to the Group
	HK$'000	HK$'000	HK$'000
Intangible assets – Forest exploitation rights	–	208,360	208,360
Amount due from directors	39	(39)	–
Net assets acquired	39	208,321	208,360

Satisfied by:	
Cash	50,000
Bonds (Note 27(i))	70,000
Convertible bonds (conversion price HK$0.188) (Note 27(ii))	13,160
Consideration shares (issue price HK$0.188) (Note 31)	75,200
Total consideration	208,360

19. Investments in Subsidiaries

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**268,872**	56,300
Less: Impairment losses	**(7,537)**	(545)
	261,335	55,755

The following list contains the particulars of subsidiaries of the Group. All of these are controlled subsidiaries as defined under note 3(e) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital/ paid-in capital	Registered capital	Principal activities	*Notes*
Future Asia Management Ltd.	British Virgin Islands ("B.V.I.")	100%	100%	–	US$20,000	US$50,000	Investment holding	
Tat Lung Medical Treatment Technology Limited	Hong Kong	100%	–	100%	HK$142,900	HK$142,900	Investment holding	
Tat Lung Medical Treatment (Shenzhen) Ltd.	PRC	100%	100%	–	US$300,000	US$300,000	Development of software for medical equipment	*(i)*
China Best Drugs Research (Nanjing) Ltd.	PRC	75%	–	100%	US$3,000,000	US$3,000,000	Research and development of medicine and drugs	*(ii)*
Sinnowa Medical Science and Technology Co. Ltd.	PRC	65%	65%	–	US$1,500,000	US$1,500,000	Manufacture and sale of medical equipment	(iii)
Medical China Technology Ltd.	B.V.I.	75%	75%	–	US$100	US$50,000	Investment holding	
CB Pharmaceutical (Nanjing) Co., Ltd.	PRC	100%	100%	–	US$4,800,000	US$5,000,000	Manufacture and sale of medicine and drugs	*(iv)*
Guilin Simei and Biotechnology Ltd.	PRC	100%	100%	–	US$1,000,000	US$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usage	*(v)*
China Cambodia Resources Limited (formerly known as "Allied Luck Worldwide Limited")	B.V.I.	100%	100%	–	US$1	US$50,000	Investment holding	*(vi)*
(Cambodia) Tong Min Group Engineering Co., Ltd.	Cambodia	100%	–	100%	US$1,000,000	US$1,000,000	Forestry business and development of rubber plantation for latex production	*(vii)*

Notes to the Financial Statements

19. Investments in Subsidiaries *(Continued)*

Notes:

(i) The subsidiary is a wholly foreign-owned enterprise set up to provide medical equipment, medical equipment software and related services.

(ii) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC and was set up to establish a research center for medicine and drugs. Pursuant to a research projects acquisition and reorganisation agreement with Miss Guo Ping ("Miss Guo") dated 6 December 2002, the subsidiary acquired certain medical research projects from Miss Guo. Upon the completion of the reorganisation, the Group retained a 75% shareholding in the subsidiary while the remaining 25% shareholding was held by Miss Guo.

(iii) The subsidiary is a sino-foreign enterprise set up to establish a medical equipment production line in Nanjing, the PRC. As at 31 December 2007 and 2006, the Company's total investment in this subsidiary amounted to US$975,000.

(iv) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC. On 13 June 2006, the registered capital of the Company increased from US$4,000,000 to US$5,000,000. During the year ended 31 December 2006, the Company injected US$800,000 as capital contributions. 南京德遠會計師事務所verified US$500,000 capital contribution and issued the capital verification report on 16 June 2006. The remaining injection of US$300,000 has not yet been verified by a PRC registered certified public accountant at the balance sheet date. The Company did not make any further injection to this subsidiary for the year ended 31 December 2007. As at 31 December 2007, the Company's total investment in this subsidiary amounted to US$4,800,000.

(v) The subsidiary is a wholly foreign-owned enterprise established in Guilin, the PRC. During the year, the Company injected US$540,000 as capital contribution. This injection has been verified by 廣西方中會計師事務所有限公司 and the capital verification report was issued on 28 June 2007. As at 31 December 2007, the Company's total investment in this subsidiary amounted to US$1,000,000.

(vi) The subsidiary was incorporated on 26 June 2007 and is the holding company of (Cambodia) Tong Min.

(vii) The subsidiary is a wholly foreign-owned enterprise established in Cambodia, and was acquired by the Group on 22 October 2007 for an aggregate consideration of HK$208,360,000 (Note 18). It is currently an investment company and undertakes logging/timber operations and is in the process of developing the rubber plantation for production of latex products.

20. Inventories

(a) Inventories comprise:

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**3,483**	2,325
Work in progress	**434**	1,026
Finished goods	**2,102**	1,883
	6,019	5,234

(b) An analysis of the amount of inventories recognised as expense is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount of inventories sold	**18,437**	13,482
Write-down of inventories	**–**	710
	18,437	14,192

Notes to the Financial Statements

21. Trade and Other Receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors	**4,370**	4,243	**–**	–
Other receivables and prepayments	**14,771**	8,179	**107**	15
Deposits paid (Note 37)	**15,000**	–	**15,000**	–
Amount due from an officer (Note 23)	**19,875**	–	**–**	–
Loans and receivables	**54,016**	12,422	**15,107**	15

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as at the balance sheet date:

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months from the date of billing	**3,518**	1,771
3 to 6 months from the date of billing	**322**	1,496
6 to 12 months from the date of billing	**530**	976
	4,370	4,243

Trade debts are normally due within 90 days from the date of billing.

22. Amounts due from Subsidiaries

Particulars of the amounts due from subsidiaries, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name	2007	2006	Maximum amount outstanding during the year
	HK$'000	HK$'000	HK$'000
Medical China Technology Ltd.	84,468	84,468	84,468
China Cambodia Resources Limited	49,080	–	49,080
	133,548	84,468	

The amounts due are unsecured, interest-free and repayable on demand.

23. Amount due from an officer

Particulars of the amount due from an officer, disclosed pursuant to Section 161 of the Companies Ordinance, are as follows:

Name	2007	2006	Maximum amount outstanding during the year
	HK$'000	HK$'000	HK$'000
Mr. Zhang Zhenzhong ("Mr. Zhang")	19,875	–	19,906

Mr. Zhang is the chief executive officer of (Cambodia) Tong Min. The amount represented the general funding for preliminary operations in Cambodia. The amount is unsecured, interest-free and repayable on demand. The amount was fully settled on 15 March 2008.

Notes to the Financial Statements

24. Deposits with Banks

The deposits with banks for the year ended 31 December 2006 are denominated in Renminbi ("RMB") and kept in the PRC.

The conversion of the RMB balances into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations on foreign exchange control promulgated by the PRC government.

During the year ended 31 December 2007, the deposits with banks have been utilised or transferred to other bank accounts.

25. Cash and Cash Equivalents

	The Group		**The Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**99,400**	12,029	**67,839**	121

26. Bank Loan

	The Group	
	2007	2006
	HK$'000	HK$'000
Within one year or on demand	**–**	3,484

The bank loan for the year ended 31 December 2006 was secured by buildings and leasehold land assets of the Group with an aggregate carrying value of HK$6,750,000. There is no outstanding bank loan as at 31 December 2007.

27. Other Interest Bearing Borrowings

(i) Bonds

On 22 October 2007, the Company issued HK$70,000,000 bonds as part of the consideration for the acquisition of (Cambodia) Tong Min. The bonds are unsecured, interest bearing at 2% per annum and repayable on 21 October 2009. All the bonds were redeemed by the Company on 14 November 2007.

27. Other Interest Bearing Borrowings *(Continued)*

(ii) Convertible bonds

	Total
	HK$'000
At 1 January 2007	–
Liability component of convertible bonds issued during the year	7,698
Transfer to share capital and share premium upon conversion	(7,698)
At 31 December 2007	–

On 22 October 2007, the Company issued 13,160,000 convertible bonds as part of the consideration for the acquisition of (Cambodia) Tong Min. The convertible bonds have a face value of HK$13,160,000 and the maturity date is 21 October 2014. The convertible bonds bear interest at 2% per annum and are unsecured. The fair values of the liability component and the equity component of the convertible bonds were calculated using a market interest rate for a similar convertible bond as if they were issued at 30 June 2007. The fair value of the liability component and the equity component of the convertible bonds amounted to HK$7,698,000 and HK$5,462,000, respectively.

The rights of the bondholders to convert the bonds into ordinary shares are as follows:

– Conversion rights are exercisable at any time up to maturity at the bondholders' option.

– Holders of the convertible bonds will have the right to convert them, in whole or in part (generally in the amount of integral multiples of HK$1 million) into shares at HK$0.188 per conversion share before the maturity date.

On 26 October 2007, the bondholders converted all the convertible bonds into 70,000,000 shares at HK$0.188. The liability component of the convertible bonds have been transferred to share capital and share premium accounts accordingly.

Notes to the Financial Statements

28. Trade and Other Payables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors	**3,854**	2,630	**–**	–
Other payables and accrued liabilities	**61,067**	27,445	**2,173**	1,016
Amount due to minority shareholder (Note 36)	**4,470**	–	**–**	–
Financial liabilities measured at amortised cost	**69,391**	30,075	**2,173**	1,016

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as at the balance sheet date:

	The Group	
	2007	2006
	HK$'000	HK$'000
Due within 3 months or on demand	**2,183**	1,097
Due after 3 months but within 6 months	**620**	123
Due after 6 months but within 1 year	**1,051**	1,410
	3,854	2,630

29. Amounts due to Subsidiaries

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

30. Taxation

Taxation in the consolidated balance sheet represents:

	The Group	
	2007	2006
	HK$'000	HK$'000
Provision for PRC taxes	**284**	240

31. Share Capital

	2007		2006	
	No. of Shares '000	**Amount HK$'000**	No. of Shares '000	Amount HK$'000
Shares of HK$0.01 each				
Authorised				
At beginning of the year	**2,000,000**	**20,000**	2,000,000	20,000
Increase during the year	**3,000,000**	**30,000**	–	–
At end of the year	**5,000,000**	**50,000**	2,000,000	20,000
Issued and fully paid				
At beginning of the year	**835,000**	**8,350**	835,000	8,350
New share placement	**167,000**	**1,670**	–	–
Top-up placement	**233,000**	**2,330**	–	–
Issue of shares	**400,000**	**4,000**	–	–
Conversion of shares	**70,000**	**700**	–	–
At end of the year	**1,705,000**	**17,050**	835,000	8,350

(i) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 2 October 2007, the authorised ordinary share capital of the Company was increased from HK$20,000,000 to HK$50,000,000 by the creation of an additional 3,000,000,000 ordinary shares of HK$0.01 each.

(ii) On 14 August 2007, the share capital of the Company was increased to HK$10,020,000 following the placement of 167,000,000 new shares.

(iii) On 22 October 2007, the Company increased its amount of share capital to HK$16,350,000 by the allotment of 233,000,000 Top-up shares and 400,000,000 consideration shares.

(iv) On 26 October 2007, the holders of convertible bonds converted 70,000,000 conversion shares and the amount of share capital further increased to HK$17,050,000.

Notes to the Financial Statements

32. Reserves

(a) The Group

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	70,733	5,265	–	2,724	33,382	112,104	3,734	115,838
Currency translation differences	–	–	–	3,344	–	3,344	181	3,525
Loss for the year	–	–	–	–	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	70,733	5,265	–	6,068	4,004	86,070	6,339	92,409
At 1 January 2007	70,733	5,265	–	6,068	4,004	86,070	6,339	92,409
Issue of shares	71,200	–	–	–	–	71,200	–	71,200
Conversion of shares	12,460	–	–	–	–	12,460	–	12,460
New share placement	113,560	–	–	–	–	113,560	–	113,560
Top-up placement	121,160	–	–	–	–	121,160	–	121,160
Premium reduction upon issue of shares	(9,330)	–	–	–	–	(9,330)	–	(9,330)
Employees share options scheme	–	–	1,875	–	–	1,875	–	1,875
Currency translation differences	–	–	–	6,209	–	6,209	445	6,654
Loss for the year	–	–	–	–	(21,989)	(21,989)	91	(21,898)
At 31 December 2007	**379,783**	**5,265**	**1,875**	**12,277**	**(17,985)**	**381,215**	**6,875**	**388,090**

32. Reserves *(Continued)*

(b) The Company

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	70,733	5,265	–	(18,383)	57,615
Loss for the year	–	–	–	(6,365)	(6,365)
At 31 December 2006	70,733	5,265	–	(24,748)	51,250
At 1 January 2007	70,733	5,265	–	(24,748)	51,250
Issue of shares	71,200	–	–	–	71,200
Conversion of shares	12,460	–	–	–	12,460
New share placement	113,560	–	–	–	113,560
Top-up placement	121,160	–	–	–	121,160
Premium reduction upon issue of shares	(9,330)	–	–	–	(9,330)
Employees share options scheme	–	–	1,875	–	1,875
Loss for the year	–	–	–	(20,840)	(20,840)
At 31 December 2007	**379,783**	**5,265**	**1,875**	**(45,588)**	**341,335**

(a) The application of the share premium account is governed by Bye-Law 140(A) of the Company's Bye-Laws and the Companies Act 1981 of Bermuda ("Companies Act").

(b) Pursuant to a reorganisation in 2001, the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of section 54 of the Companies Act.

(c) The exchange reserve has been set up and is dealt with in accordance with accounting policy adopted for foreign currency translations.

(d) The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in (note 3(s)(iii)).

(e) At 31 December 2007 and 2006, the Company had no reserves available for distribution to shareholders.

Notes to the Financial Statements

33. Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2007 contracted but not provided for in the financial statements were as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Capital contributions to subsidiaries	**1,560**	5,758
Property, plant and equipment	**12,133**	11,365
	13,693	17,123

(b) Operating lease commitments

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2007	2006
	HK$'000	HK$'000
Within 1 year	**257**	460
After 1 year but within 5 years	**220**	108
After 5 years	**251**	314
	728	882

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one or two years, with options to renew the lease when all terms are renegotiated. The leases do not include contingent rentals.

34. Employee Retirement Benefits

Defined contribution retirement plan

(a) Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by a defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

(b) The PRC

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employee salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in the income statement of the Group is disclosed in note 6 to the financial statements.

35. Employees Share Options Scheme

Pursuant to a written resolution passed by all the shareholders of the Company on 14 December 2001, the Company had conditionally approved and adopted a share option scheme (the "Share Option Scheme").

The principal terms of the Share Option Scheme are set out in the Company's prospectus dated 19 December 2001.

Pursuant to a resolution passed at a meeting of all independent non-executive directors on 12 October 2007, the Group granted share option of 40,000,000 shares to a director and employees of the Group under the Share Option Scheme. As at 31 December 2007, no share option was exercised.

Notes to the Financial Statements

35. Employees Share Options Scheme *(Continued)*

(a) The terms and conditions of the grants that existed during the year are as follows:

	Numbers of instruments	Vesting conditions	Contractual life of options
Options granted to a director:			
– on 12 October 2007	4,000,000	One year from the date of grant	6 years
Options granted to employees:			
– on 12 October 2007	36,000,000	One year from the date of grant	6 years
Total share options	40,000,000		

(b) The exercise price of the share option is HK$0.45. Both the director and employees did not exercise the share opton during the year ended 31 December 2007 as the options can only be exercised after one year from the date of grant.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model.

Fair value of share options and assumptions	2007
Fair value at grant date	HK$0.23
Share price	HK$0.43
Exercise price	HK$0.45
Expected volatility	101.49%
Risk-free interest rate (based on Exchange Fund Notes)	4.170%

The amount of fair value of share option recognised for the year ended 31 December 2007 is HK$1,875,000.

36. Material Related Party Transactions

(a) Transactions and balances

The Group had the following significant business transactions with connected parties and related companies which are subject to common control during the year:

	Notes	2007 HK$'000	2006 HK$'000
Advance to an officer	(i)	**19,875**	–
Amount due to Innova	(ii)	**4,470**	–
Management fee to Innova		**3,364**	–

Notes:

(i) The Group advanced to Mr. Zhang, the Chief Executive Officer of (Cambodia) Tong Min an amount of HK$19,875,000 as funding for preliminary operations in Cambodia. This advance is unsecured, interest-free, and repayable on demand. The amount was fully settled on 15 March 2008.

(ii) During the year ended 31 December 2007, the Group owes Innova an amount of HK$4,470,000. Innova is a minority shareholder of Sinnowa. The amount is unsecured, interest-free and has no fixed terms of repayment.

The directors of the Company are of the opinion that the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business.

Apart from the above, there were no other material related party transactions entered into by the Group during the year.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2007 HK$'000	2006 HK$'000
Short-term employee benefits	**844**	544
Employees share options scheme	**188**	–
	1,032	544

Total remuneration is included in "staff costs" (Note 6).

Notes to the Financial Statements

37. Post Balance Sheet Events

On 14 November 2007, the Company entered into a non-legally binding Memorandum of Understanding ("MOU") for the acquisition of the entire equity interest of Agri-Industrial Crop Development (Cambodia) Co., Ltd. ("Agri-Industrial Crop"). An earnest money of HK$15 million was paid to the vendors as deposit. Further to the MOU and on 9 January 2008, the Company entered into the In-Principle Agreement for the Acquisition.

On 20 March 2008, a wholly owned subsidiary of the Company formally entered into a legally-binding acquisition agreement with the Vendors, where the Vendors agreed to dispose of the entire issued share capital of Agri-Industrial Crop for an aggregate consideration of HK$270 million to the Group.

Further to the Acquisition and on the same date, another wholly owned subsidiary of the Company, entered into a Cooperation Agreement with a third party, pursuant to which the Group has conditionally agreed to sub-lease 10% of the total site area of the First Forest, at a cash consideration of US$10 million for a term of approximately 70 years.

Reference is made to the Company's announcements on 14 November 2007, 9 January 2008, 14 March 2008, 18 March 2008 and 20 March 2008. Unless otherwise defined herein, terms used in this result announcement shall have the same meanings as those defined in the announcements as referred.

38. Capital Risk Management

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

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness by adjusted capital. Total indebtedness includes bank overdrafts, bank loans, finance lease liabilities, bonds and other interest bearing securities. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognized in equity relating to cash flow hedges, less unaccrued proposed dividends.

The Group's strategy was to maintain the gearing ratio at 0% to 100% which was consistent to that of prior years. In order to maintain the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, repurchase of shares, raise new debt financing or sell assets to reduce debt.

The gearing ratio of the Group was 0% and 3.7% as at 31 December 2007 and 31 December 2006, respectively. The improving gearing ratio in the financial year under review was due to the full repayment of bank loan and change of loan term with China Merchant Bank. Under the new banking facility, the Group was granted general banking facility of HK$4,806,000, and was secured by buildings and leasehold land assets of the Group. The change of term provides greater flexibility for the Group to manage the liquidity and interest expenses. The Company did not draw any available banking facility at 31 December 2007.

39. Financial Risks Management

Exposure to credit and other risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from merger and acquisition as well as trading. The Group has dedicated policies and procedures in place to control and monitor the risk from all such activities.

(b) Liquidity risk

Liquidity management is essential to ensure the Group has the ability to meet its obligations as they fall due. It is the Group's policy to maintain a strong liquidity position by properly managing the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are comfortably met.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

2007

	Carry amount HK$'000	**Within 1 year or on demand HK$'000**
Trade and other payables	**69,391**	**69,391**

2006

	Carry amount HK$'000	Within 1 year or on demand HK$'000
Bank loans	3,484	3,484
Trade and other payables	30,075	30,075
	33,559	33,559

(c) Market risk

Market risk is the risk that foreign exchange rates, interest rates and equity, and indices will move and result in profits or losses for the Group. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk.

Notes to the Financial Statements

39. Financial Risks Management *(Continued)*

(c) Market risk *(continued)*

(i) Foreign exchange risk

The Group exposures to market risk primarily arise from the effective foreign currency risk management. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with Renminbi. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group does not hedge its foreign currency risks with United States dollars as the rate of exchange between Hong Kong dollars and United States dollars is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on consolidated financial statements.

As at 31 December 2007, the Group had no outstanding hedging instruments (2006: HK$Nil).

(ii) Interest rate risk

The Group is not subject to any interest rate risk as all interest bearing debts have been fully settled. The Board has set out capital management policy which is focus on the control of interest bearing debts. Following the well-defined policy, the gearing ratio is set to be under the adjusted capital and this will minimize the Group exposure to interest rate volatility.

(iii) Equity risk

The Group's equities exposure was mainly in long-term equity investments which are reported as investment in subsidiaries by the Company as set out in note 19 to the financial statements. All equities held are more than 50% controlling interest and are held for long term investment purpose. They are not subject to volatility arises from short-term fluctuation.

40. Accounting Estimates and Judgments

Key sources of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgments and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and the provision charge/write-back in the period in which such estimate has been changed.

(ii) Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires management judgments and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(iii) Impairment of intangible assets, biological assets and property, plant and equipment

The carrying value of the intangible assets, biological assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in note 3(i) to the financial statements. The recoverable amount of the intangible assets, biological assets and property, plant and equipment is the greater of fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

(iv) Fair value estimation

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt.

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

Five Years Summary

	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Results					
Turnover	33,937	31,576	36,081	34,979	**38,443**
Profit/(loss) from operations	(18,736)	6,145	(2,000)	(26,472)	**(21,630)**
Finance costs	(136)	(73)	(301)	(271)	**(244)**
Share of loss of an associate	(12)	(290)	–	–	**–**
Profit/(loss) before taxation	(18,884)	5,782	(2,301)	(26,743)	**(21,874)**
Taxation	(2,445)	(2,507)	–	(211)	**(24)**
Profit/(loss) for the year	(21,329)	3,275	(2,301)	(26,954)	**(21,898)**
Attributable to:					
Equity holders of the Company	(21,316)	3,560	(2,167)	(29,378)	**(21,989)**
Minority interests	(13)	(285)	(134)	2,424	**91**
	(21,329)	3,275	(2,301)	(26,954)	**(21,898)**
Assets and liabilities					
Property, plant and equipment	23,122	19,493	8,842	7,473	**7,379**
Biological assets	–	–	–	2,426	**88**
Construction in progress	825	–	760	6,447	**18,189**
Interests in leasehold land held for own use under operating leases	1,121	1,089	2,303	2,509	**2,563**
Intangible assets	58,537	58,237	57,983	28,090	**287,161**
Negative goodwill	(5,943)	(3,089)	–	–	**–**
Interest in an associate	435	–	–	–	**–**
Net current assets	38,808	44,762	54,300	53,814	**89,760**
Net Assets	116,905	120,492	124,188	100,759	**405,140**
Share capital	8,350	8,350	8,350	8,350	**17,050**
Reserves	104,493	108,358	112,104	86,070	**381,215**
	112,843	116,708	120,454	94,420	**398,265**
Minority interests	4,062	3,784	3,734	6,339	**6,875**
	116,905	120,492	124,188	100,759	**405,140**
Earnings/(loss) per share (Hong Kong cents)					
Basic	(2.55)	0.43	(0.26)	(3.52)	**(2.12)**
Diluted	N/A	N/A	N/A	N/A	**N/A**