



A N N U A L R E P O R T



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Everpride Biopharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

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This annual report, for which the directors (the “Directors”) of Everpride Biopharmaceutical Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this annual 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 annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Chung Chi Mang (*Chairman*)
Zhong Zhi Gang
Xie Xiaodong
Mu Yong

Independent Non-Executive Directors

Chau On Ta Yuen
Ho Leong Leong, Lawrence
Ng Kay Kwok

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Leung King Fai, CPA, CPA (Aust.)

ASSISTANT COMPANY SECRETARY

Codan Trust Company (Cayman) Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-III
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2002, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

AUDITORS

CCIF CPA Limited
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

COMPLIANCE OFFICER

Chung Chi Mang

AUTHORISED REPRESENTATIVES

Chung Chi Mang
Leung King Fai

SOLICITOR

Conyers Dill & Pearman, Cayman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-III
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

in Hong Kong
Standard Chartered Bank

in Mainland China
Hua Xia Bank
Bank of China

GEM STOCK CODE

8019

CHAIRMAN'S STATEMENT

For and on behalf of the board of Directors (the "Board") of Everpride Biopharmaceutical Company Limited (the "Company") together with its subsidiary (the "Group"), I am pleased to present to all shareholders the annual report of the Group for the year ended 31 December 2007.

Facing strict competition and adverse market conditions in the pharmaceutical industry in Mainland China, the Group recorded a turnover for the year of approximately RMB67,466,000, which represented a decrease of approximately 13% as compared with that of 2006. The Group recorded a profit for the year of approximately RMB4,222,000. The decrease in profit is due mainly to a decrease in turnover and increase in staff costs.

In order to improve the operation results, the Group will continue to engage in research work so as to develop new products and to improve the quality of existing products, such as the Staphylokinese Project and "Plasmin Tablet", both are expected to be introduced into the market by the end of year 2008. With the increase in the variety of products, the advertising and promotion activities will be more cost effective and the market share of the Group's products will be improved. In addition, the Group will continue to look for other new investment and cooperation opportunities so as to broaden the income base and to strengthen the profitability, as well as minimising the performance risk of the Group.

On behalf of the Board, I would like to extend my appreciation to shareholders of the Company for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, lawyers and auditors for their trust and support to the Group.

Chung Chi Mang

Chairman

Hong Kong, 31 March 2008

MANAGEMENT DISCUSSIONS AND ANALYSIS

OPERATION REVIEW

During the year under review, the Group continued to engage in the production and sales of the medicines known as “Plasmin Capsule” and “Puli Capsule” in Mainland China.

“Plasmin Capsule” is classified as a “State Class 2 Protected Product of Chinese Medicine” and is entitled to an administrative protection period of seven years commencing from 19 December 2006 and expiring on 29 September 2013. “Puli Capsule” is classified as a “State Class 4 Protected Product of Chemical Medicine” and is entitled to an administrative protection period of six years commencing from 23 July 2002 and expiring on 22 July 2008. During the corresponding administrative protection periods, the prescription and the production technology used by the Group in producing “Plasmin Capsule” and “Puli Capsule” are protected and no other manufacturers in Mainland China may produce or imitate these two products in Mainland China.

According to the clinical studies conducted by medical institutions in Mainland China, “Plasmin Capsule” has the principal effect of resolving blood clots and may be used for treatment of cardiovascular and cerebrovascular diseases, while “Puli Capsule” has the principal effect of treating osteoarthritis. Both products are manufactured in the Group’s production complex in Taigu County, Shanxi Province, which obtained the Good Manufacturing Practices (“GMP”) certificate on 28 February 2003.

FINANCIAL REVIEW

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB67,466,000 (2006: RMB77,410,000), which represented a decrease of approximately 13% as compared with that of 2006. The Group’s audited consolidated profit attributable to shareholders for the year was approximately RMB4,222,000 (2006: profit attributable to shareholders of approximately RMB17,179,000). This is due mainly to a decrease in turnover and increase in staff costs.

During the year, the Group has only two medicines under production and sales: one is “Plasmin Capsule” which is classified as a prescription medicine and its sales are limited to hospitals which is a relatively weak market for the Group; the other is “Puli Capsule” which is classified as an over-the-counter (“OTC”) medicine which has been the major market for the Group in Mainland China. The decrease in turnover during the year was due to a decrease in the sales of “Puli Capsule”.

The sales of “Puli Capsule” was approximately RMB62,565,000 (2006: RMB73,741,000), representing approximately 93% of the consolidated turnover of the Group during the year. The Group recorded a turnover from the sales of “Plasmin Capsule” of approximately RMB4,901,000 (2006: RMB3,669,000), representing approximately 7% of the consolidated turnover of the Group during the year.

In order to improve the sales of “Plasmin Capsule”, the Group will continue to focus more on developing the prescription medicine market through doctors in hospitals. Besides, the Group will put more efforts in mass media advertising to further promote the sales of “Puli Capsule” through the OTC medicine market.

The Directors expect that the above-mentioned measures will improve the market share of the Group’s products and add more contributions to the shareholders’ return.

RESEARCH AND DEVELOPMENT AND THE STAPHYLOKINESE PROJECT

During the year under review, the Group continued to engage Fujian Normal University Everpride Biopharmaceutical Research and Development Centre for its research work, especially the Staphylokinese Project. Staphylokinese is a genetically-engineered medicine, which is the third generation of thrombotic medicine. The clinical application sample and its other related materials were submitted to the State Drug Administration of the People's Republic of China ("SDA") in 2002 for clinical trial approval. Up to the date of this announcement, such approval has not been obtained and the application is still in progress. Once the clinical trials are completed and approved, the Group will make an application for a Certificate of New Medicine in respect of Staphylokinese. Such delay was due to the continuous requests for additional information by the SDA.

INTRODUCTION OF "PLASMIN TABLET"

The Group is now developing an alternative to "Plasmin Capsule" known as "Plasmin Tablet". The prescription and the principal effect of "Plasmin Tablet" are the same as those of "Plasmin Capsule" but with the advantages of avoiding breakage and being humidified, thus with a higher stability. The waiver for clinical research of "Plasmin Tablet" was obtained from the SDA on 14 January 2004 and the application for production is expected to be completed by the end of 2008.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through internally-generated cash flows and banking facilities provided by its principal bankers. As at 31 December 2007, the Group had cash and cash equivalents amounting to approximately RMB787,000 (2006: RMB3,149,000). With the limited available resources and due to the fair operating results during the year, the Directors expected that the Group might depend on further financing from its shareholders and bankers to finance its business operations and to achieve its business objectives.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year.

CHARGES ON GROUP ASSETS

As at 31 December 2007, certain leasehold properties with an aggregate carrying amounts of approximately RMB38,923,000 (2006: RMB38,077,000) were pledged as collateral for the Group's bank borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost in Renminbi and its borrowings are denominated in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

MANAGEMENT DISCUSSIONS AND ANALYSIS

SIGNIFICANT INVESTMENTS

The Group had no significant investments during the year.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions or disposals during the year under review. It has no plans for material investments or capital assets other than those set out in the Prospectus.

EMPLOYEE INFORMATION

Currently, the Group has about 200 employees working in Hong Kong and in Mainland China. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The staff costs, including directors' emoluments, were approximately RMB10,932,000 for the year under review (2006: RMB7,754,000).

GEARING RATIO

As at 31 December 2007, the Group's gearing ratio, being the ratio of total liabilities to total assets, was 81% (2006: 100%).

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no contingent liabilities (2006: Nil).

OUTLOOK

The Directors still anticipate that fierce competition in the pharmaceutical industry in Mainland China will continue to strongly affect adversely the future earnings and prospects of the Group.

In order to improve the market share of the Group's products, the Group will continue to engage in research work so as to develop new products and to improve the quality of existing products. The Directors believe that the introduction of "Plasmin Tablet" will help the Group in developing the prescription medicine market which in turns enhancing the recognition of the Group and its products. Together with Staphylokinese Project if once approved and introduced into the market, the income base of the Group will be broadened and the turnover and operating results will be improved.

Going forward, the Board will make every effort to improve the operation results of the Group and continue to look for other pharmaceutical manufacturers for possible cooperation, such as merger and acquisition, so as to strengthen the profitability and minimise the performance risk of the Group.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chung Chi Mang, aged 46, is the founder and the Chairman of the Group. Mr. Chung is responsible for formulating the overall business development and corporate strategies. In early 1990's, Mr. Chung became involved in the marketing and distribution of medical and healthcare products. In May 1995, Mr. Chung established and became the chairman and general manager of Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride") which has since been fully devoted to the development of "Plasmin Capsule". Mr. Chung has been engaged in the business development and corporate management for over 10 years, during which he gained wide experience in product development and marketing in the pharmaceutical industry. Mr. Chung is currently a deputy chairman of the Old Aged Dietary Association of China and a director of the Old Aged Foundation of China.

Mr. Zhong Zhi Gang, aged 45, is an executive Director and a deputy general manager of Shanxi Everpride. Mr. Zhong is responsible for the production and marketing activities of the Group. Mr. Zhong joined the Group in March 1996 as a deputy general manager of Shanxi Everpride in charge of the sales of medicines. In November 1999, Mr. Zhong became a director of Shanxi Everpride. Mr. Zhong is experienced in the sales, distribution and promotion of medical and healthcare products in Mainland China. Mr. Zhong is the brother of Mr. Chung Chi Mang.

Mr. Xie Xiaodong, aged 58, is an executive Director and a deputy general manager of Shanxi Everpride. Mr. Xie has been engaged in the sales of medical and healthcare products outside Mainland China for over 10 years. Mr. Xie graduated from Fuzhou University, majoring in electrical engineering. Mr. Xie joined the Group in October 1995 when he was appointed as a director of Shanxi Everpride.

Mr. Mu Yong, aged 49, is an executive Director of the Company and assists in the formulation of the overall business strategies and development. Mr. Mu graduated from Tianjin City Nankai District Staff Leisure University, majoring in Chinese language and literature. Prior to joining the Group in March 2004, Mr. Mu held management positions with enterprises in Mainland China and has gained extensive experience in investment, business development and corporate management.

Independent Non-executive Directors

Mr. Chau On Ta Yuen, aged 60, was appointed as an independent non-executive Director of the Company on 5 June 2003. Mr. Chau graduated from Xiamen University, majoring in Chinese language and literature. Mr. Chau is the vice chairman and an executive director of Everbest Century Holdings Limited which is listed on the Main Board of the Stock Exchange of Hong Kong Limited. He is also a member of the Chinese People's Political Consultative Conference of the People's Republic of China.

Mr. Ho Leong Leong, Lawrence, aged 57, was appointed as an independent non-executive Director of the Company on 8 November 2002. Mr. Ho is a famous commentator on current affairs and the deputy director of editorial department of Phoenix Satellite Television Holdings Limited.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Ng Kay Kwok, aged 45, was appointed as an independent non-executive Director of the Company on 17 July 2006. Mr. Ng graduated from The Australian National University with a Bachelor's degree in Economics. He is an associate member of CPA Australia. Mr. Ng is currently a director of Sinio On Ltd.

He has worked for a number of companies listed in Hong Kong and has extensive experience in accounting and financial management.

Senior Management

Mr. Shan Bingwei, aged 53, is a deputy general manager of Shanxi Everpride. He was previously the deputy head of the technical intelligence section of Taiyuan Iron and Steel Factory. In November 1995, Mr. Shan became a deputy general manager of Shanxi Everpride.

Ms. Wang Shulan, aged 68, is a deputy general manager and the chief engineer of Shanxi Everpride. She graduated from the pharmacy department of Shenyang School of Pharmacy, majoring in antibiotics. Ms. Wang joined Taiyuan Pharmaceutical Factory and later became the chief engineer. In October 1995, Ms. Wang joined Shanxi Everpride as the chief engineer in charge of the research, manufacture, development and production technology of "Plasmin Capsule". Ms. Wang is experienced in the research and development and production technology of Chinese and chemical medicines. Ms. Wang was an editor of the Chinese Pharmaceutical Journal, a director of the Shanxi Institute of Pharmacy and a director of the Taiyuan Institute of Pharmacy.

Ms. Lou Xiaofen, aged 44, is the Department Head of Department of Medicine and Science in the Beijing Representative Office of Everpride Pharmaceutical Company (Hong Kong) Ltd. She is responsible for product research and development. Ms. Lou graduated from the Medical School of Zhejiang University. Prior to joining the Group in July 2002, Ms. Lou was the Head of in vitro research group, Department of Pharmacology and Biology, Beijing Representative Office of Pharmagenesis Pharmaceutical Company of the United States.

Dr. Jia Yanjun, aged 38, is the Department head of Medicine and Science in Shanxi Everpride. He is responsible for product research and development. Dr. Jia is a holder of Degree of Doctor of sciences from Chinese Academy of Military Medical Sciences. He has long been engaged in the research on enzymes and human gene transferring. Prior to joining the Group in February 2004, Dr. Jia was an assistant researcher in Chinese Academy of Military Medical Sciences.

Mr. Leung King Fai, aged 36, is the company secretary and financial controller of the Group. Mr. Leung is responsible for the financial and accounting functions of the Group. He graduated from Deakin University, Victoria, Australia with a Bachelor's degree in Commerce. Mr. Leung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He joined the Group in November 2005. Mr. Leung has worked for an international audit firm and listed company in Hong Kong. He has extensive experience in accounting and financial management.

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the “Board”) is pleased to present this Corporate Governance Report in the Company’s annual report for the year ended 31 December 2007.

Good corporate governance has always been recognized as vital to the Group’s success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of the Group’s business.

The Company has applied the Principles set out in the Code on Corporate Governance Practices (“CG Code”) and complied with most of the Code Provisions save for the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer;

- (1) the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer.

The details of the above deviations of Code Provisions A.2.1 will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:–

A. THE BOARD

(1) Responsibilities

The overall management of the Company’s business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company’s expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

A. THE BOARD *(Continued)*

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Company and for the exercise of independent judgement.

The Board comprises the following directors:–

Executive directors:

Mr Chung Chi Mang, Chairman of the Board & Compliance Officer

Mr Zhong Zhi Gang

Mr Xie Xiaodong

Mr Mu Yong

Independent non-executive directors:

Mr Chau On Ta Yuen, Chairman of the Audit Committee

Mr Ho Leong Leong, Lawrence, member of the Audit Committee

Mr Ng Kay Kwok, member of the Audit Committee

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the GEM Rules from time to time.

Mr Zhong Zhi Gang is the younger brother of Mr Chung Chi Mang. Other than that, there is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the GEM Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the GEM Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

A. THE BOARD *(Continued)*

(3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

The term of office of each of the non-executive directors of the Company is up to the date of holding the Company's 2007 annual general meeting.

Although the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Articles of Association, Mr Chung Chi Ming and Mr Ho Leong Leong, Lawrence shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of the above directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular to be despatched to its shareholders contains detailed information of the directors standing for reelection.

CORPORATE GOVERNANCE REPORT

A. THE BOARD *(Continued)*

(4) Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the GEM Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

(5) Board and Committee Meetings

Number of Meetings and Directors' Attendance

Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2007, 11 Board meetings and 4 Audit Committee meetings were held. The individual attendance record of each director at the meetings of the Board and Audit Committee during the year ended 31 December 2007 is set out below:–

Name of Directors	Attendance/Number of Meetings	
	Board	Audit Committee
Mr Chung Chi Mang	11/11 (Note)	N/A
Mr Zhong Zhi Gang	11/11 (Note)	N/A
Mr Xie Xiaodong	11/11 (Note)	N/A
Mr Mu Yong	11/11 (Note)	N/A
Mr Ho Leong Leong, Lawrence	11/11 (Note)	4/4
Mr Chau On Ta Yuen	11/11 (Note)	4/4
Mr Ng Kay Kwok	11/11 (Note)	4/4

Note: One of the Board meetings has discussed the remuneration related matters and one of the Board meetings has discussed the directors' nomination matters.

Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of the Board and committee meetings are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

A. THE BOARD *(Continued)*

(5) Board and Committee Meetings *(Continued)*

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors/committee members apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Compliance Officer, Qualified Accountant and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Company does not have an officer with the title of "Chief Executive Officer". The CG Code envisages that the management of the Board should rest with the Chairman, whereas the day-to-day management of the Company's business should rest with the Chief Executive Officer. Currently, Mr Chung Chi Mang, the Chairman of the Board, is also responsible for the operation of production plant in Taigu County, Shanxi Province. This constitutes a deviation of the Code Provision A.2.1. As Mr Chung Chi Mang has extensive experience and knowledge in the industry, the Board still holds the view that this arrangement is beneficial to the running of the production plant. Mr Chung Chi Mang will regularly inform the Board on the latest development of the plant in Taigu County, Shanxi Province. Despite the aforesaid, the Board will review such arrangement from time to time and consider the appointment of the Chief Executive Officer if it is in the best interest of the Company and its shareholders.

C. BOARD COMMITTEES

(1) Remuneration Committee

Code Provision B.1.1 stipulates that an issuer should establish a Remuneration Committee with specific written terms of reference and a majority of the members of the Remuneration Committee should be independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee comprises all the Independent Non-executive Director. The Remuneration Committee members are Mr. Chau On Ta Yuen (Chairman of the Committee), Mr. Ho Leong Leong, Lawrence and Mr. Ng Kay Kwok. The Remuneration Committee met once in 2007 and was attended by all Committee members. The policies for the remuneration of Executive Directors and the Senior Management were reviewed by the Remuneration Committee, after consultation with the Board. Remuneration, including basic salaries, discretionary performance bonuses, of the Executive Directors and Senior Management is based on skill, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long term motivation and incentive to and for retaining staff.

Remuneration, comprising directors' fees, of Non-executive director is subject to annual assessment for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

(2) Audit Committee

The Company has established its Audit Committee with defined written terms of reference. The terms of reference of the Audit Committee are available to shareholders upon request.

The Audit Committee is provided with sufficient resources to discharge their duties and, upon reasonable request, is able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

C. BOARD COMMITTEES *(Continued)*

(2) Audit Committee *(Continued)*

The main duties of the Audit Committee include the following:–

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor (if any) or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held 4 meetings during the year ended 31 December 2007 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2007 have been reviewed by the Audit Committee.

D. REQUIRED STANDARD OF DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct (the "Own Code") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Rules in respect of the dealings of the Company's securities by the Company's directors.

Specific enquiry has been made of all of the directors and they confirmed that they have complied with the Own Code and the Required Standard of Dealings throughout the year ended 31 December 2007.

D. REQUIRED STANDARD OF DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS *(Continued)*

The Company has also established written guidelines on no less exacting terms than the Required Standard of Dealings (the “Employees Written Guidelines”) in respect of the dealings in the Company’s securities by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS’ REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the “Auditors’ Report” on page 25.

The remuneration of the external auditors of the Company in respect of audit services of internal control of the Group for the year ended 31 December 2007 amounted to HK\$450,000. The Company’s external auditors also provide tax services to the Company for the year ended 31 December 2007 but no fee was charged in this respect.

The Board has overall responsibility for the establishment, maintenance and review of the Group’s system of internal control. In 2007, the Board has appointed an independent audit firm to conduct a detailed review with the management of the effectiveness of the system of internal control of the Company and its subsidiaries and considered that the internal control system is effective.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders’ meetings are contained in the Company’s Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be posted on the website of the Stock Exchange by way of an announcement on the business day following the shareholders’ meeting.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS *(Continued)*

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2007.

BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 20 July 2001.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The basis of preparation of the financial statements is set out in Note 2 to the accompanying consolidated financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of subsidiaries and associate are detailed in Notes 18 and 19 to the financial statements, respectively.

SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the year ended 31 December 2007 is set out in Note 5 to the accompanying consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the five largest customers accounted for approximately 81% of the Group’s total turnover. The five largest suppliers accounted for approximately 94% of the Group’s total purchases. In addition, the largest customer accounted for approximately 42% of the Group’s total turnover while the largest supplier accounted for approximately 42% of the Group’s total purchases.

None of the Directors, their associates or any shareholders (which, to the knowledge of the Directors, own more than 5% of the Company’s issued share capital) had any interest in the Group’s five largest customers and suppliers.

RESULTS AND DIVIDENDS

Details of the Group’s results for the year ended 31 December 2007 are set out in the consolidated income statement on page 27 of this annual report.

REPORT OF THE DIRECTORS

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out below:

Consolidated results

	Year ended 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	67,466	77,410	48,165	44,160	26,645
Profit/(loss) before taxation	7,352	17,179	(23,998)	539	(117,114)
Taxation	(3,130)	–	–	–	–
Net profit/(loss) from ordinary activities attributable to shareholders	4,222	17,179	(23,998)	539	(117,114)

Consolidated assets and liabilities

	As at 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Non-current assets	78,669	73,429	53,859	65,606	86,291
Current assets	59,561	38,860	28,105	39,629	32,288
Current liabilities	(112,352)	(112,475)	(99,371)	(98,499)	(109,706)
Net current liabilities	(52,791)	(73,615)	(71,266)	(58,870)	(77,418)
Non-current liabilities	–	–	–	(20)	(2,696)
Net assets/(liabilities)	25,878	(186)	(17,407)	6,716	6,177

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the Company's issued share capital, together with the details of the Company's share option scheme are set out in Note 26 and 27 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 26 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007 and 2006, the Company has no reserves available for distribution to its shareholders.

PROPERTY, PLANT AND EQUIPMENT

Movements in leasehold properties and other property, plant and equipment of the Group during the year are set out in Notes 13 and 14 to the accompanying consolidated financial statements, respectively.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2007 are set out in Note 24 to the accompanying consolidated financial statements.

CONNECTED TRANSACTIONS

There were no significant connected party transactions entered into by the Group for the year ended 31 December 2007.

DIRECTORS

The Directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Mr. Chung Chi Mang
Mr. Zhong Zhi Gang
Mr. Xie Xiaodong
Mr. Mu Yong

Independent Non-executive Directors

Mr. Chau On Ta Yuen
Mr. Ho Leong Leong, Lawrence
Mr. Ng Kay Kwok

In accordance with the Company's articles of association, Messrs. Chung Chi Mang and Ho Leong Leong, Lawrence will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS *(Continued)*

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to GEM Listing Rule 5.09 and the Company considers the independent non-executive Directors remained independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Chung Chi Mang has entered into a service contract for an initial term of three years commencing from 1 November 2000. Each of Mr. Zhong Zhi Gang and Mr. Xie Xiaodong has entered into a service contract for an initial term of three years commencing from 5 July 2001. Mr. Mu Yong has not been appointed for any fixed term. After the initial term, all the service contracts may be terminated by either party thereto giving to the other party three months' prior notice in writing.

The independent non-executive Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party-during or at the end of the year.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests and short positions of the Directors and chief executives 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, Chapter 571 under the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity/ Nature of interest	No. of shares (Note 1)	Approximate percentage of interest
Mr. Chung Chi Mang ("Mr. Chung")	Interest of a controlled corporation	193,975,000 (L) (Note 2)	26.94%

Notes:

1. The letter "L" denotes a long position in shares.
2. These shares are beneficially owned by Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited). By virtue of his 100% shareholding in Montgomery Properties Holding Limited, Mr. Chung is deemed or taken to be interested in the 193,975,000 shares owned by Montgomery Properties Holding Limited.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS OF OTHER MEMBERS OF THE GROUP

So far as known to any Director or chief executive of the Company, as at 31 December 2007, persons who have interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	No. of shares	Approximate percentage of interest
Mr. Chung (Note 1)	Interest of a controlled corporation	193,975,000 (L)	26.94%
Ms. Ma Wai (Note 2)	Interest of spouse	193,975,000 (L)	26.94%
Montgomery Properties Holding Limited	Beneficial owner	193,975,000 (L)	26.94%

Notes:

1. Mr. Chung is deemed or taken to be interested in these shares which are beneficially owned by his wholly owned company, namely Montgomery Properties Holding Limited for the purpose of the SFO.
2. Ms. Ma Wai is the wife of Mr. Chung and is deemed to be interested in the 193,975,000 shares in which Mr. Chung is deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2007, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

Pursuant to a share option scheme adopted by the Company on 5 July 2001, the Directors may, at their discretion, offer to full-time employees and executive Directors of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. As at 31 December 2007, none of the Directors and employees of the Company or its subsidiaries were granted options to subscribe for shares in the Company.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December 2007, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

COMPETING INTEREST

Up to the date of this report, none of the Directors or the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) of the Company has an interest in a business which competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

AUDIT COMMITTEE

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal monitoring system of the Group. The audit committee has three members comprising Mr. Chau On Ta Yuen (who is acting as the chairman of the audit committee), Mr. Ho Leong Leong, Lawrence and Mr. Ng Kay Kwok, the three independent non-executive Directors. The audit committee met four times during the year. The Group's audited consolidated results for the year have been reviewed by the audit committee, and it was in its opinion that (i) the preparation of such results complied with the applicable standards and statutory requirements and the requirements of the Stock Exchange and that (ii) the internal reporting and monitoring system of the Group had been properly implemented and was adequate to keep the Board informed of the business and the management affairs of the Group and there were no material adverse affairs in the operation of the Group. During the year, no material matters were identified and reported by the Board to the audit committee and the supervisory committee of the Board.

BOARD PRACTICES AND PROCEDURES

For the year under review, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning the board practices and procedures, which applied before the amendment relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting to appoint Messrs. CCIF CPA Limited as auditors.

On behalf of the Board

Chung Chi Mang

Chairman

Hong Kong, 31 March 2008



CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

**Independent auditor's report to the shareholders of
Everpride Biopharmaceutical Company Limited**
(Incorporated in the Cayman Islands with limited liability)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We were engaged to audit the accompanying consolidated financial statements of Everpride Biopharmaceutical Company Limited (the "Company") and its subsidiaries (together referred to as the "Group"), 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.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with International Standards on Auditing. 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. However, because of the matter described in the basis for disclaimer of opinion section, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION

(a) Scope limitation – recoverability of deposit for acquisition of a property

As detailed in noted 17 to the consolidated financial statements, the deposit for acquisition of the property has been carried forward from last year and was still outstanding at 31 December 2007. There were no documentary evidence to support whether the independent third party has ability to complete the transaction and whether the deposit will be recovered, and in consequence whether the carrying amount of deposit for acquisition of the property as at 31 December 2007 are fairly stated. Any adjustment to the figure may have a consequential significant effect on the profit for the year, net assets as at 31 December 2007 and related disclosure in the consolidated financial statements.

(b) Material uncertainties relating to the going concern basis

As explained in note 2(b) to the consolidated financial statements, which indicates that the Group had a consolidated net current liabilities of approximately RMB52,791,000 as at 31 December 2007, including the Group's bank loans of approximately RMB40,160,000, which have been overdue as at the date of this report. The Group is currently undertaking a number of measures to improve its financial and current liquidity position. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the Group's current negotiations with its bankers and prospective investors to secure continual financial support and obtain new working capital in order for the Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such support and working capital. We consider that appropriate disclosures have been made in the consolidated financial statements concerning these situations, however the uncertainty surrounding the outcome of these negotiations raises significant doubt about the Company's ability to continue as a going concern.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters discussed in the preceding paragraphs, we do not express an opinion on the consolidated financial statements.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 31 March 2008

Yau Hok Hung

Practising Certificate Number P04911

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	4	67,466	77,410
Cost of sales		(15,804)	(23,184)
Gross profit		51,662	54,226
Other operating (loss)/income	6	(2,103)	5,073
Selling and distribution expenses		(16,764)	(27,816)
General and administrative expenses		(21,320)	(18,936)
Profit from operations		11,475	12,547
Net finance expense	7(a)	(4,383)	(5,886)
Reversal of impairment loss on amount due from an associate		–	10,518
Gain on disposal of associate		260	–
Profit from ordinary activities before taxation	7	7,352	17,179
Income tax	8(a)	(3,130)	–
Profit attributable to equity shareholders of the Company	11	4,222	17,179
Earnings per share	12		
Basic		RMB0.68 cents	RMB2.86 cents

The notes on pages 32 to 74 form part of these consolidated financial statements.

BALANCE SHEETS

At 31 December 2007
(Expressed in Renminbi)

	Note	The Group		The Company	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Non-current assets					
Fixed assets					
– Leasehold properties	13	38,945	38,139	–	–
– Plant and equipment	14	14,880	13,459	–	–
		53,825	51,598	–	–
Intangible assets	15	–	467	–	–
Deposit for acquisition of leasehold land	16	4,280	800	–	–
Deposit for acquisition of a property	17	20,564	20,564	–	–
Investments in subsidiaries	18	–	–	4	4
Interest in an associate	19	–	–	–	–
		78,669	73,429	4	4
Current assets					
Inventories	20	4,625	1,526	–	–
Trade and other receivables	21	54,149	32,665	29,258	197
Cash and cash equivalents	22	787	3,149	9	3
		59,561	37,340	29,267	200
Current liabilities					
Trade and other payables	23	(57,216)	(55,109)	(7,696)	(8,876)
Short-term bank borrowings, secured	24	(40,160)	(44,000)	–	–
Current taxation	25	(14,976)	(11,846)	–	–
		(112,352)	(110,955)	(7,696)	(8,876)
Net current liabilities		(52,791)	(73,615)	21,571	(8,676)
Total assets less current liabilities		25,878	(186)	21,575	(8,672)
NET ASSETS/(LIABILITIES)		25,878	(186)	21,575	(8,672)
CAPITAL AND RESERVES					
Share capital	26	75,438	64,200	75,438	64,200
Reserves		(49,560)	(64,386)	(53,863)	(72,872)
TOTAL EQUITY/(CAPITAL DEFICIT)		25,878	(186)	21,575	(8,672)

Approved and authorised for issue by the board of directors on 31 March 2008.

Chung Chi Mang

Zhong Zhi Gang

The notes on pages 32 to 74 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007
(Expressed in Renminbi)

	2007		2006	
	RMB'000	RMB'000	RMB'000	RMB'000
Capital deficit at 1 January		(186)		(17,407)
Net expenses recognised directly in equity				
Exchange differences on translation into presentation currency	546		42	
Profit for the year	4,222		17,179	
Total recognised income and expenses for the year		4,768		17,221
Movements in equity arising from capital transactions:				
Shares issued pursuant to share subscription		21,296		—
Total equity/(capital deficit) at 31 December		<u>25,878</u>		<u>(186)</u>

The notes on pages 32 to 74 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007		2006	
		RMB'000	RMB'000	RMB'000	RMB'000
Operating activities					
Profit from ordinary activities before taxation		7,352		17,179	
Adjustments for:					
Amortisation of land lease premium for property held for own use	7(c)	175		175	
Depreciation of other property, plant and equipment	7(c)	4,433		3,830	
Amortisation of intangible assets	7(c)	467		800	
Impairment loss on trade receivables	6	1,899		1,603	
Write-off of other receivables	6	420		3,669	
Write-back of provision for slow-moving and obsolete inventories	6	(83)		(10,259)	
Finance expense	7(a)	5,472		5,255	
Interest income	7(a)	(28)		(4)	
Loss on disposal of fixed assets	6	35		6	
Reversal of impairment loss on amount due from an associate		–		(10,518)	
Gain on disposal of associate		(260)		–	
Operating profit before changes in working capital		19,882		11,736	
(Increase)/decrease in inventories		(3,016)		9,085	
Increase in debtors, deposits and prepayments		(24,242)		(9,776)	
Increase/(decrease) in creditors and accrued charges		423		(345)	
Increase/(decrease) in deposits from customers		272		(1,866)	
Increase in other tax payable		473		1,577	
Net cash (used in)/from operating activities			(6,208)		10,411

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007		2006	
		RMB'000	RMB'000	RMB'000	RMB'000
Investing activities					
Payment for the acquisition of property, plant and equipment		(4,735)		(3,034)	
Payments for deposits in respect of:					
– acquisition of plant and equipment		(879)		(1,020)	
– acquisition for leasehold land		(3,480)		(800)	
– acquisition of a property		–		(20,564)	
Proceeds from disposal of associate		260		–	
Net repayment from the associate		–		10,518	
Interest received		28		4	
Net cash used in investing activities			(8,806)		(14,896)
Financing activities					
Net advance from a director		2,634		1,622	
Net (repayment to)/advance from the associate		(5,560)		6,438	
New bank loan raised		9,000		–	
Repayment of bank loans		(12,840)		(1,000)	
Net proceeds from issuance of shares	26	21,296		–	
Capital element of finance lease rentals paid		–		(43)	
Interest element of financial lease rentals paid		–		(5)	
Interest paid		(1,872)		–	
Net cash from financing activities			12,658		7,012
Net (decrease)/increase in cash and cash equivalents			(2,356)		2,527
Cash and cash equivalents at 1 January			3,149		563
Effect of foreign exchange rate changes			(6)		59
Cash and cash equivalents at 31 December	22		787		3,149

The notes on pages 32 to 74 form part of these consolidated financial statements.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

1. CORPORATION INFORMATION

Everpride Biopharmaceutical Company Limited (the “Company”) was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands, and its shares have been listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 20 July 2001.

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate. The Group primarily is involved in the manufacture and sales of medicines.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations promulgated by the International Accounting Standards Board (the “IASB”). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The IASB has issued a number of new and revised IFRSs 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 these financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7 “Financial instruments: Disclosures” and the amendment to IAS 1 “Presentation of financial statements: Capital disclosures”, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the consolidated financial statements include expanded disclosure about 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 IAS 32 “Financial instruments: Disclosure and presentation”. These disclosures are provided throughout these financial statements, in particular in note 31.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group’s and the Company’s objectives, policies and processes for managing capital. These new disclosures are set out in note 26(f).

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

2. BASIS OF PREPARATION (Continued)

(a) Statement of compliance (Continued)

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

The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting period (see note 3(t)).

(b) Going concern

In preparing the consolidated financial statements, the directors of the Company have considered the future liquidity of the Group in view of its net current liabilities position as at 31 December 2007. Up to the date of approval of these financial statements, the Group had short-term bank loans of approximately RMB40,160,000 which have been overdue.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

- (i) Mr. Chung Chi Mang, a director and controlling shareholder of the Company, has undertaken to the Company to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Group.
- (ii) The directors of the Company are in ongoing negotiations with the Group's banker to reschedule the repayment of bank borrowings due from the Group and to seek the ongoing support to the Group from this banker and other bankers.
- (iii) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, a private placement, an open offer or a rights issue of new shares of the Company.
- (iv) The directors of the Company continue to take action to tighten cost controls over factory overheads and various general and administrative expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

2. BASIS OF PREPARATION *(Continued)*

(b) **Going concern** *(Continued)*

In the opinion of the directors of the Company, in light of the measures taken to date, together with expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, notwithstanding that the Group had a consolidated net current liabilities of approximately RMB52,791,000 as at 31 December 2007, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2007 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

(c) **Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis.

(d) **Functional and presentation currency**

These consolidated financial statements are presented in Renminbi, which is the Group's functional currency. All financial information presented in Renminbi has been rounded to the nearest thousand.

(e) **Use of estimate and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and report amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 32.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

As a result of adopting IFRS 7 “Financial instruments: Disclosures”, and the amendment to IAS 1 “Presentation of financial statements: Capital disclosures”, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2(a).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group’s share of the associate’s net assets. The consolidated income statement includes the Group’s share of the post-acquisition, post-tax results of the associate.

When the Group’s share of losses exceeds its interest in the associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has legal or constructive obligations or has made payments on behalf of the associate.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with the associate are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Investments in subsidiaries

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 3(i)).

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see note 3(i)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

(iii) Depreciation

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

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion/acquisition.
- Machinery and equipment 8 – 10 years
- Furniture and office equipment 5 – 8 years
- Motor vehicles 5 – 8 years

Depreciation methods, the useful lives and residual values are reviewed at each reporting date.

- (iv) Construction in progress represents buildings and various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 3(i)). Cost comprises direct costs of construction incurred during the periods of construction.

Construction in progress is transferred to buildings, and machinery and equipment when the asset is substantially ready for its intended use.

(d) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from previous lessee, or at the date of construction of those buildings, if any.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leased assets (Continued)

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(e) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (see below) and accumulated impairment losses (see note 3(i)).

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation (see below) and accumulated impairment losses (see note 3(i)).

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets (Continued)

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, from the date that they are available for use. The estimated useful lives are 5 to 10 years.

The amortisation method and useful life of the intangible assets are reviewed annually to ensure that the method and period of amortisation are consistent with the expected pattern of economic benefits from the intangible assets.

(f) Inventories

Inventories are carried at the lower of cost and net realisable value.

The cost of inventories is calculated based on the weight average costing method (which approximates the average actual cost) 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.

(g) 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 (see note 3(i)), 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 allowance for impairment of doubtful debts (see note 3(i)).

(h) 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.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimate future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Non-financial assets (Continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a charge in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially 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.

(k) Trade and other payables

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

(l) Revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

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

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings and foreign currency losses that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 expenditure expected to settle the obligation.

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) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary asset 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 profit or loss.

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 value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in 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.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

(s) 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 system, 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.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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 comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 "Operating Segments" introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 5).
- Revised IAS 23 "Borrowing Costs" removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) New standards and interpretations not yet adopted (Continued)

- IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions” requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group’s 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 12 “Service Concession Arrangements” provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group’s 2008 financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 13 “Customer Loyalty Programmes” addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group’s 2009 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14, which becomes mandatory for the Group’s 2008 financial statements with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- Amendments to IAS 32 “Financial instruments: Presentation” and IAS 1 “Presentation of financial statements” provide exemptions from financial liability classification for and require extensive disclosures about puttable financial instruments and obligations arising on liquidation, respectively. Amendments to IAS 32 and IAS 1, which become mandatory for the Group’s 2009 financial statements, are not expected to have any effect on the consolidated financial statements.
- Revised IAS 1 “Presentation of financial statements” requires comprehensive revision including a statement of comprehensive income. Revised IAS 1 will become mandatory for the Group’s 2009 financial statements. The Group has not yet determined the potential effect of the interpretation.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) New standards and interpretations not yet adopted (Continued)

- Amendments to IAS 27 “Consolidated and separate financial statements” relate mainly to changes to the accounting for non-controlling (minority) interest and deal primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary. Amended IAS 27 will become mandatory for the Group’s 2010 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.
- Revised IFRS 3 “Business Combinations” is broadened to cover business combinations involving only mutual entities and business combinations achieved by contract alone. Revised IFRS 3 will become mandatory for the Group’s 2010 financial statements. The Group has not yet determined the potential effect of the interpretation.

4. TURNOVER

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of any goods returns and trade discounts.

5. SEGMENT REPORTING

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 in making operating and financial decisions.

(a) Business segment

Throughout the year, the Group has been operating in a single business segment, i.e. the manufacture and sale of medicines. Accordingly, no business segment information is presented.

(b) Geographical segment

As the Group’s revenue and results were substantially derived from the People’s Republic of China (“PRC”) and its operating assets and liabilities are also based in the PRC, no geographical segment information is presented.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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6. OTHER OPERATING (LOSS)/INCOME

	2007 RMB'000	2006 RMB'000
Sample income	108	92
Impairment loss on trade receivables	(1,899)	(1,603)
Write-off of other receivables	(420)	(3,669)
Write-back of provision on slow-moving and obsolete inventories	83	10,259
Loss on disposal of fixed assets	(35)	(6)
Sundry income	60	-
	<u>(2,103)</u>	<u>5,073</u>

7. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Net finance expense

	2007 RMB'000	2006 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	5,472	5,250
Finance charges on obligations under a finance lease	-	5
Net foreign exchange loss	-	635
	<u>5,472</u>	<u>5,890</u>
Net foreign exchange gain	(1,061)	-
Interest income	(28)	(4)
	<u>4,383</u>	<u>5,886</u>
The above financial income and expense include the following in respect of assets/(liabilities) not at fair value through profit or loss:		
Total interest income on financial assets	(28)	(4)
Total interest expense on financial liabilities	<u>5,472</u>	<u>5,255</u>

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Renminbi)

7. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

(b) Staff costs

	2007 RMB'000	2006 RMB'000
Contributions to defined contribution retirement plans	1,085	927
Salaries, wages and other benefits	9,847	6,827
Total staff costs	<u>10,932</u>	<u>7,754</u>

(c) Other items

	2007 RMB'000	2006 RMB'000
Amortisation of land lease premium	175	175
Depreciation of property, plant and equipment	4,433	3,830
Amortisation of intangible assets	467	800
Research and development costs	1,216	712
Operating lease charges in respect of property rentals: minimum lease payments	2,293	2,323
Auditors' remuneration		
– audit services	450	420
– other services	–	150
Cost of inventories sold	<u>15,804</u>	<u>23,184</u>

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in Renminbi)

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
Current tax – The PRC		
Provision for the PRC enterprise income tax for the year	<u>3,130</u>	<u>–</u>

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the years ended 31 December 2007 and 2006.

The PRC enterprise income tax represents taxation charged on assessable profits for the year ended 31 December 2007 after netting off the accumulated tax losses brought forward from previous years at the rates of taxation prevailing in the cities in the PRC in which the Group operates. No provision for PRC enterprise income tax had been made as the Group had accumulated tax losses brought forward which exceeded the estimated assessable profits for the year ended 31 December 2006.

The subsidiary of the Group established in the PRC is generally subject to enterprise income tax on its taxable income at a combined national and local tax rate of 33% in respect of the year ended 31 December 2007.

On 16 March 2007, the Fifth Sessions of the Tenth National People's Congress passed the united enterprise income tax law in the PRC. Pursuant to the united income tax law, the income tax rate that is applicable to the subsidiary of the Group in the PRC would be reduced from 33% to 25% effective from 1 January 2008.

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8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 RMB'000	2006 RMB'000
Profit before tax	7,352	17,179
Notional tax on profit before tax, calculated at the PRC enterprise income tax rate of 33%	2,426	5,669
Tax effect of non-deductible expenses	1,367	3,207
Tax effect of non-taxable income	(433)	(7,278)
Tax effect of unused tax losses not recognised	388	380
Tax effect of prior years' tax losses utilised this year	(1,154)	(2,347)
Tax effect of different tax rates in other jurisdictions	536	369
Actual tax expense	3,130	–

9. DIRECTORS' REMUNERATION

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2007 Total RMB'000
<i>Executive directors:</i>				
Chung Chi Mang	–	607	11	618
Zhong Zhi Gang	–	243	11	254
Xie Xiaodong	–	243	11	254
Mu Yong	–	–	–	–
<i>Independent non-executive directors:</i>				
Chau On Ta Yuen	61	–	–	61
Ho Leong Leong, Lawrence	61	–	–	61
Ng Kay Kwok	61	–	–	61
	183	1,093	33	1,309

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9. DIRECTORS' REMUNERATION (Continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2006 Total RMB'000
<i>Executive directors:</i>				
Chung Chi Mang	–	640	12	652
Zhong Zhi Gang	–	260	12	272
Xie Xiaodong	–	260	12	272
Mu Yong	–	–	–	–
<i>Independent non-executive directors:</i>				
Chau On Ta Yuen	65	–	–	65
Ho Leong Leong, Lawrence	65	–	–	65
Lam Man Sum, Albert	35	–	–	35
Ng Kay Kwok	30	–	–	30
	<u>195</u>	<u>1,160</u>	<u>36</u>	<u>1,391</u>

For the years ended 31 December 2007 and 2006, no emolument was paid to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. There was no any arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2007 and 2006.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2006: three) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2006: two) individuals are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	557	585
Retirement scheme contributions	19	19
	<u>576</u>	<u>604</u>

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10. INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of two (2006: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2007	2006
Nil – RMB1,000,000 (approximately equivalent to HK\$1,000,000)	<u>2</u>	<u>2</u>

For the years ended 31 December 2007 and 2006, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB8,400,000 (2006: RMB367,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB4,222,000 (2006: RMB17,179,000) and the weighted average of 623,342,466 (2006: 600,000,000) ordinary shares in issue during the year, calculated as follows:

	2007 '000	2006 '000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	600,000	600,000
Effect of shares issued (note 26(c)(ii))	<u>23,342</u>	<u>–</u>
Weighted average number of ordinary shares at 31 December	<u>623,342</u>	<u>600,000</u>

(b) Diluted earnings per share

The diluted earnings per share is not presented because the Company does not have dilutive potential ordinary shares for the years ended 31 December 2007 and 2006.

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13. LEASEHOLD PROPERTIES

(a) Movements in leasehold properties of the Group are as follows:

	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use carried at cost RMB'000	Total RMB'000
Cost			
At 1 January 2006	8,039	43,994	52,033
Exchange adjustments	–	(4)	(4)
Additions	–	19	19
Transfer from construction-in-progress	–	687	687
Disposals	–	(92)	(92)
	<u>8,039</u>	<u>44,604</u>	<u>52,643</u>
At 31 December 2006	<u>8,039</u>	<u>44,604</u>	<u>52,643</u>
At 1 January 2007	8,039	44,604	52,643
Exchange adjustments	–	(1)	(1)
Additions	–	90	90
Transfer from construction-in-progress	–	10,668	10,668
	<u>8,039</u>	<u>55,361</u>	<u>63,400</u>
At 31 December 2007	<u>8,039</u>	<u>55,361</u>	<u>63,400</u>
Accumulated amortisation and depreciation			
At 1 January 2006	862	12,319	13,181
Exchange adjustments	–	(4)	(4)
Charge for the year	175	1,244	1,419
Written back on disposals	–	(92)	(92)
	<u>1,037</u>	<u>13,467</u>	<u>14,504</u>
At 31 December 2006	<u>1,037</u>	<u>13,467</u>	<u>14,504</u>
At 1 January 2007	1,037	13,467	14,504
Exchange adjustments	–	–	–
Charge for the year	175	1,476	1,651
Transfer from construction-in-progress	–	8,300	8,300
	<u>1,212</u>	<u>23,243</u>	<u>24,455</u>
At 31 December 2007	<u>1,212</u>	<u>23,243</u>	<u>24,455</u>
Net book value			
At 31 December 2007	<u>6,827</u>	<u>32,118</u>	<u>38,945</u>
At 31 December 2006	<u>7,002</u>	<u>31,137</u>	<u>38,139</u>

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13. LEASEHOLD PROPERTIES (Continued)

(b) The analysis of net book value of leasehold land is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
In the PRC		
– medium-term leases (note)	6,204	6,369
– long leases	623	633
	<u>6,827</u>	<u>7,002</u>

Note:

Included in interests in leasehold land held for own use under operating leases is the land use right under medium-term lease which comprises land use fees paid to the government of Taigu County for the rights to use the land where the Group's factory buildings in Taigu County of Shanxi Province are located for a period of 40 years up to 2040.

(c) Leasehold properties of approximately RMB38,923,000 (2006: RMB38,077,000) have been pledged to banks to secure bank loan facilities granted to the Group.

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14. PLANT AND EQUIPMENT

Movements in plant and equipment of the Group are as follows:

	Machinery and equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction- in-progress RMB'000	Total RMB'000
Cost					
At 1/1/2006	10,740	3,124	10,368	8,390	32,622
Exchange adjustments	–	(15)	(55)	–	(70)
Additions	292	97	236	2,390	3,015
Transfer	801	–	–	(1,488)	(687)
Disposals	–	(14)	–	–	(14)
At 31/12/2006	<u>11,833</u>	<u>3,192</u>	<u>10,549</u>	<u>9,292</u>	<u>34,866</u>
At 1/1/2007	11,833	3,192	10,549	9,292	34,866
Exchange adjustments	–	(23)	(88)	–	(111)
Additions	1,816	360	1,085	3,531	6,792
Transfer	1,235	–	–	(11,903)	(10,668)
Disposals	–	(119)	–	–	(119)
At 31/12/2007	<u>14,884</u>	<u>3,410</u>	<u>11,546</u>	<u>920</u>	<u>30,760</u>
Accumulated amortisation and depreciation					
At 1/1/2006	3,006	2,855	4,721	8,300	18,882
Exchange adjustments	–	(9)	(44)	–	(53)
Charge for the year	1,250	129	1,207	–	2,586
Written back on disposals	–	(8)	–	–	(8)
At 31/12/2006	<u>4,256</u>	<u>2,967</u>	<u>5,884</u>	<u>8,300</u>	<u>21,407</u>
At 1/1/2007	4,256	2,967	5,884	8,300	21,407
Exchange adjustments	–	(17)	(83)	–	(100)
Change for the year	1,505	295	1,157	–	2,957
Transfer	–	–	–	(8,300)	(8,300)
Written back on disposals	–	(84)	–	–	(84)
At 31/12/2007	<u>5,761</u>	<u>3,161</u>	<u>6,958</u>	<u>–</u>	<u>15,880</u>
Net book value					
At 31/12/2007	<u>9,123</u>	<u>249</u>	<u>4,588</u>	<u>920</u>	<u>14,880</u>
At 31/12/2006	<u>7,577</u>	<u>225</u>	<u>4,665</u>	<u>992</u>	<u>13,459</u>

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15. INTANGIBLE ASSETS

Movements in intangible assets of the Group are as follows:

	The Group	
	2007 RMB'000	2006 RMB'000
Cost		
At 1 January and 31 December	5,000	5,000
Accumulated amortisation and impairment losses		
At 1 January	4,533	3,733
Charge for the year	467	800
At 31 December	5,000	4,533
Net book value		
At 31 December	–	467

Intangible assets represents exclusive rights acquired by the Group to produce and sell the products of “Plasma Capsule” and “Puli Capsule” within and outside the PRC.

The amortisation charge for the year is included in “general and administrative expenses” in the consolidated income statement.

16. DEPOSIT FOR ACQUISITION OF LEASEHOLD LAND

At 31 December 2007, the Group paid a total sum of approximately RMB4,280,000 (2006: RMB800,000) as a deposit for the purchase of a leasehold land, which is located in Taigu County of Shanxi Province in the PRC. Subsequent to the balance sheet date, the transaction was completed and the entire deposit is converted into the cost of the leasehold land.

At 31 December 2007, capital commitment of the Group in respect of the remaining unpaid balance of approximately RMB680,000 (2006: RMB4,160,000) for this acquisition is disclosed in note 30 to the consolidated financial statements.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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17. DEPOSIT FOR ACQUISITION OF A PROPERTY

At 31 December 2007, the Group paid a total sum of approximately RMB20,564,000 (2006: RMB20,564,000) as a deposit for the acquisition of a property located in Taiyuan of Shanxi Province in the PRC. According to the relevant sale and purchase agreement, the transaction should be completed during the year ended 31 December 2007, but the seller, an independent third party, failed to complete the transaction owing to the seller was involved in the litigation and disputes with the other parties. However, the directors of the Company are closely monitoring the progress of this acquisition, and they believe that the transaction will be completed and the entire deposit will be converted into the cost of the said property.

Capital commitments of the Group in respect of the remaining unpaid balance of approximately RMB4,321,000 (2006: RMB4,321,000) for this acquisition is disclosed in note 30 to the consolidated financial statements.

18. INVESTMENTS IN SUBSIDIARIES

In the Company's balance sheet, investments in subsidiaries consist of:

	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	56,164	56,164
Less: Accumulated impairment losses	(56,160)	(56,160)
	<u>4</u>	<u>4</u>

In prior years, the directors of the Company assessed the recoverable amount of the investments in subsidiaries as they considered that the subsidiaries incurred losses for the prior years and there were indications of impairment on the carrying amount, accordingly an impairment loss of approximately RMB56,160,000 was made in prior years. As at 31 December 2007, the directors of the Company are of the opinion that there was no significant change in the situation and no impairment should be reversed.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

The particulars of all subsidiaries of the Company at 31 December 2007 were as follows:

Name of company	Place of incorporation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	held by the Company	held by the subsidiary	
Garner International Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US\$1 each	100%	100%	-	Investment holding
Everpride Pharmaceutical (H.K.) Co., Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	-	100%	Trading of medicines
Scylla Assets Limited	BVI	1,000 ordinary shares of US\$1 each	100%	-	100%	Investment holding
Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride") *	PRC	US\$2,280,000	100%	-	100%	Manufacture and sales medicines

* Shanxi Everpride is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to 26 May 2015.

19. INTEREST IN AN ASSOCIATE

	The Group	
	2007 RMB'000	2006 RMB'000
Share of net assets	-	-

The interest in the associate represents 20% equity interest in Shanxi Everpride Medical and Healthily Apparatus and Instruments Co., Ltd. which is a private enterprise established in the PRC, and the principal activity of which is trading of medical and health apparatus and instruments. The interest in this associate has been disposed of during the year ended 31 December 2007, resulting in a gain of RMB260,000, which was included in the consolidated income statement.

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20. INVENTORIES

	The Group	
	2007 RMB'000	2006 RMB'000
Raw materials, at cost	5,760	3,121
Finished goods, at cost	1,165	788
	6,925	3,909
Less: Provision for slow-moving and obsolete inventories	(2,300)	(2,383)
	4,625	1,526

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade debtors	111,966	94,389	–	–
Bills receivable	2,019	–	–	–
	113,985	94,389	–	–
Less: allowance for doubtful debts (note 21(b))	(67,110)	(65,211)	–	–
	46,875	29,178	–	–
Other receivables	5,194	1,517	–	–
Amount due from a subsidiary *	–	–	29,082	8
Loans and receivables	52,069	30,695	29,082	8
Rental and other deposits	610	693	–	–
Prepayments	1,470	1,277	176	189
	54,149	32,665	29,258	197

* The amount due from the subsidiary is unsecured, interest free and has no fixed terms of repayments.

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered or recognised as expense within one year.

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21. TRADE AND OTHER RECEIVABLES (Continued)

a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivables with the following ageing analysis:

	The Group	
	2007 RMB'000	2006 RMB'000
0 to 30 days	11,598	10,664
31 to 60 days	1,917	2,493
61 to 90 days	7,084	2,874
91 to 180 days	15,152	8,382
181 to 365 days	10,161	8,447
Over 365 days	68,073	61,529
	113,985	94,389
Less: allowance for doubtful debts	(67,110)	(65,211)
	46,875	29,178

The Group generally requires its customer to pay a deposit shortly before delivery of goods, with the remaining balances of the sales with credit periods ranging from 90 to 180 days. Further details on the Group's policy are set out in note 31(a).

b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 3(i)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2007 RMB'000	2006 RMB'000
At 1 January	65,211	63,608
Impairment loss recognised	1,899	1,603
At 31 December	67,110	65,211

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21. TRADE AND OTHER RECEIVABLES (Continued)

b) Impairment of trade debtors and bills receivable (Continued)

At 31 December 2007, the Group's trade debtors and bills receivable of RMB99,010,000 (2006: RMB90,225,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group holds sales deposits from the relevant customers over these balances.

c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2007 RMB'000	2006 RMB'000
Neither past due nor impaired	12,206	3,657
Less than 6 months past due	829	131
More than 6 months past due	1,941	376
	2,770	507
	14,976	4,164

Receivables that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balance as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds sales deposits from the relevant customers over these balances.

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22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash and bank deposits, denominated in				
– Hong Kong dollars and United States dollars	74	76	9	3
– Renminbi	713	3,073	–	–
Cash and cash equivalents in the balance sheets and consolidated cash flow statement	787	3,149	9	3

Cash and cash equivalents of approximately RMB713,000 (2006: RMB3,073,000) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade creditors	3,454	2,037	–	–
Accrued expenses and other payables	14,835	13,890	674	805
Interest payable	11,326	7,726	–	–
Other tax payable	12,851	12,378	–	–
Amount due to an associate *	–	6,438	–	–
Amount due to subsidiary *	–	–	5,968	5,578
Amount due to a director *	3,570	1,732	1,054	2,493
Financial liabilities amortised at cost	46,036	44,201	7,696	8,876
Sales deposits from customers	11,180	10,908	–	–
	57,216	55,109	7,696	8,876

* The amounts due to the associate, the subsidiary and the director are unsecured, non-interest bearing and have no fixed terms of repayment.

All of the trade and other payables, apart from sales deposits from customers, are expected to be settled within one year.

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23. TRADE AND OTHER PAYABLES (Continued)

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group	
	2007 RMB'000	2006 RMB'000
0 to 30 days	1,054	1,290
31 to 60 days	215	8
61 to 90 days	1,225	–
91 to 180 days	70	–
181 to 365 days	56	14
Over 365 days	834	725
	<u>3,454</u>	<u>2,037</u>

24. SHORT-TERM BANK BORROWINGS, SECURED

Short-term bank borrowings of RMB40,160,000 (2006: RMB44,000,000) have been overdue as at the date of approval of these financial statements as the relevant financing arrangements expired. The Group is in ongoing negotiations with the banker to reschedule the repayment of bank borrowings.

Short-term bank borrowings bear interest at rates of 7.9794% to 9.4122% (2006: 8.0287% to 9.5753%) per annum.

The loan facilities of a subsidiary are secured by mortgage over its leasehold properties with an aggregate carrying amount of approximately RMB38,923,000 (2006: RMB38,077,000) and construction-in-progress with an aggregate carrying amount of RMB295,000 (2006: RMB992,000).

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25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2007 RMB'000	2006 RMB'000
Provision for PRC enterprise income tax for the year	3,130	–
Balance of provision for PRC enterprise income tax relating to prior years	11,846	11,846
	<u>14,976</u>	<u>11,846</u>
Amount of taxation payable expected to be settled:		
– within 1 year	3,130	–
– after more than 1 year	11,846	11,846
	<u>14,976</u>	<u>11,846</u>

(b) Deferred tax liabilities/(assets) not recognised

The following temporary differences have not been recognised:

	The Group	
	2007 RMB'000	2006 RMB'000
Deferred tax liabilities/(assets) arising from:		
Depreciation allowances in excess of related depreciation	4	17
Impairment loss on and write-off of trade and other receivables	(22,684)	(22,071)
Provision for slow-moving and obsolete inventories	(759)	(817)
Tax losses	(3,952)	(4,718)
	<u>(27,391)</u>	<u>(27,589)</u>

At the balance sheet date and for the year, no deferred tax assets has been recognised in relation to the deductible temporary differences and tax losses as it is not probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilised. The Group has tax losses of approximately RMB3,952,000 (2006: RMB3,564,000), which do not expire under current tax legislation.

The Group and the Company had no significant potential deferred tax liabilities for the year and at the balance sheet date.

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26. CAPITAL AND RESERVES

(a) The Group

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	General reserve fund RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2006	64,200	-	7,195	9,025	(222)	(97,605)	(17,407)
Exchange differences on translation into presentation currency	-	-	-	-	42	-	42
Profit for the year	-	-	-	-	-	17,179	17,179
At 31 December 2006 and 1 January 2007	64,200	-	7,195	9,025	(180)	(80,426)	(186)
Exchange differences on translation into presentation currency	-	-	-	-	546	-	546
Shares issued pursuant to share subscription	11,238	10,114	-	-	-	-	21,352
Share issuance expense	-	(56)	-	-	-	-	(56)
Profit for the year	-	-	-	-	-	4,222	4,222
At 31 December 2007	<u>75,438</u>	<u>10,058</u>	<u>7,195</u>	<u>9,025</u>	<u>366</u>	<u>(76,204)</u>	<u>25,878</u>

(b) The Company

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2006	64,200	-	56,774	-	(130,013)	(9,039)
Profit for the year	-	-	-	-	367	367
At 31 December 2006 and 1 January 2007	64,200	-	56,774	-	(129,646)	(8,672)
Exchange differences on translation into presentation currency	-	-	-	551	-	551
Shares issued pursuant to share subscription	11,238	10,114	-	-	-	21,352
Share issuance expense	-	(56)	-	-	-	(56)
Profit for the year	-	-	-	-	8,400	8,400
At 31 December 2007	<u>75,438</u>	<u>10,058</u>	<u>56,774</u>	<u>551</u>	<u>(121,246)</u>	<u>21,575</u>

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26. CAPITAL AND RESERVES (Continued)

(c) Share capital

(i) Authorised and issued share capital

	2007		2006	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Authorised:				
Ordinary shares of HK\$0.10 (equivalent to RMB0.107) each	2,000,000	214,000	2,000,000	214,000
Issued and fully paid:				
At 1 January	600,000	64,200	600,000	64,200
Shares issued pursuant to share subscription (note (ii) below)	120,000	11,238	–	–
At 31 December	720,000	75,438	600,000	64,200

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued pursuant to share subscription

On 23 September 2007, the Company entered into a conditional agreement (the "Subscription Agreement") with an independent third party (the "Subscriber"). Pursuant to the Subscription Agreement, the Company agreed to allot and issue, and the Subscriber agreed to subscribe for 120,000,000 new ordinary shares of the Company at a price of HK\$0.19 (equivalent to approximately RMB0.18) per ordinary share. The net proceeds of approximately HK\$22,700,000 (equivalent to approximately RMB21,296,000) was raised from this issue of shares and would be applied by the Group as general working capital.

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26. CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves

(i) Share premium

Share premium represents the share premium of the Company, the application of which is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) Capital reserve

Capital reserve represents the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate amount of the issued share capital of subsidiaries acquired by the Company through an exchange of shares.

(iii) General reserve fund

According to the relevant laws and regulations in the PRC, Shanxi Everpride, as a wholly foreign-owned enterprise established in the PRC, is required to appropriate at least 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the generally accepted accounting principles and financial regulations applicable to the PRC enterprises, to a general reserve fund until the balance of the fund reaches 50% of its registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

The general reserve fund can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase.

The directors of Shanxi Everpride resolved not to appropriate its after-tax profit to the general reserve fund for each of the years ended 31 December 2007 and 2006. It is because the general reserve fund of Shanxi Everpride has reached 50% of its registered capital and no further appropriation is necessary unless there is an increase in the amount of its registered capital.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(q).

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For the year ended 31 December 2007
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26. CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves (Continued)

(v) Contributed surplus

The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares.

Under the Companies Law (2000 Revision) of the Cayman Islands, contributed surplus is distributable to shareholders, subject to condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby less than the aggregate of its liabilities and its issued capital account.

(e) Distributability of reserves

In the opinion of the Company's directors, as at 31 December 2007 and 2006, the Company has no reserves available for distribution to its shareholders.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Group consists of (i) debt, which includes bank and other borrowings; (ii) cash and cash equivalents; and (iii) capital, which comprises all components of equity.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to balance its overall capital structure, the Group may issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

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27. EMPLOYEE SHARE OPTIONS

The Company has adopted on 5 July 2001 a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible employees for their contribution to the Group. Eligible employees of the Scheme include all executive directors, executives, officers and full-time employees of the Group.

The exercise price of the options may be determined by the Board at its absolute discretion but in any event will not be less than the higher of:

- (i) nominal amount of a share;
- (ii) the closing price of a share as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a business day; and
- (iii) the average closing price of a share as stated in the Stock Exchange’s daily quotations sheets for the five consecutive business days immediately preceding the date of grant of the option.

The Scheme will remain valid for a period of 10 years commencing from 5 July 2001, after which period no further options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect.

During the both years and as at 31 December 2007 and 2006, no eligible employee had been granted any option to subscribe for shares in the Company.

28. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

As stipulated by the rules and regulations in the PRC, Shanxi Everpride, a subsidiary established in the PRC, is required to contribute to a state-sponsored retirement plan for all of its employees at approximately 17% of the basic salary of its employees.

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.

For the year ended 31 December 2007, the aggregate amount of the Group’s contributions to the aforementioned schemes was approximately RMB1,085,000 (2006: RMB927,000) which was included in the staff costs.

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29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

	2007 RMB'000	2006 RMB'000
Short-term employee benefits	1,675	1,810
Retirement scheme contributions	45	48
Total	1,720	1,858

Total remuneration is included in "staff cost" (see note 7(b)).

30. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group	
	2007 RMB'000	2006 RMB'000
Contracted for		
– acquisition of machinery and equipment	–	632
– construction of ancillary factory buildings	–	260
– acquisition of leasehold land	680	4,160
– acquisition of a property	4,321	4,321
	5,001	9,373

- (b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2007 RMB'000	2006 RMB'000
Within 1 year	35	577
After 1 year but within 5 years	–	557
	35	1,134

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

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31. FINANCIAL INSTRUMENTS

The Group's financial assets include cash and cash equivalents, trade and other receivables. The Group's financial liabilities include short-term bank borrowings, trade and other payables.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practises described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. Normally, the Group requests the customers to pay sales deposits to reduce the credit risk exposures.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of risk as 13.37% (2006: 20.19%) and 50.81% (2006: 61.69%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

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For the year ended 31 December 2007
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31. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The total contractual undiscounted cash flows of the Group's and the Company's non-derivate financial liabilities are the same as their carrying amounts as their remaining maturities are within one year.

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. The interest rates and maturity information of the Group's bank borrowings are disclosed in notes 24.

The Group policy is to manage its interest rate risk to ensure there are no undue exposure to significant interest rate movements and rates are approximately fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, any future variations in interest rate would not have a significant impact on the results of the Group.

(d) Fair values

All financial instruments are carried at amounts not materially different from their values as at 31 December 2007 and 2006.

(e) Currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi, the exchange rate risk of the Group is not significant and the Group does not employ any financial instruments for hedging purposes.

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32. ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade debtors, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write offs would be higher than estimated.

(b) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Provision for inventories

If the costs of inventories fall below their net realisable values, provision for inventories is recognised. Net realisable value represents 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. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion and other distribution costs were to be higher than estimated, the provision for inventories could be higher than estimated.