山東羅欣藥業股份有限公司

Shandong Luoxin Pharmacy Stock Co.,Ltd.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 8058

ANNUAL REPORT 2008

* For identification purposes only

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This report, for which the directors (the "Directors") of Shandong Luoxin Pharmacy Stock Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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, (1) the information contained in this report is accurate and complete in all material respects and is not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this 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

Liu Baoqi
Liu Zhenhai
Li Minghua
Han Fengsheng

Non-executive Directors

Zhou Wuxian
Yin Chuangui
Liu Yuxin

Independent non-executive Directors

Foo Tin Chung, Victor
Fu Hongzheng
Li Hongjian

SUPERVISORS

Gao Xiaoling
Sun Song
Zhu Enqiang
Guan Yonghua

COMPLIANCE OFFICER

Liu Baoqi

QUALIFIED ACCOUNTANT

Lau Hon Kee *(FCPA, CPA(Aust.))*

COMPANY SECRETARY

Lau Hon Kee *(FCPA, CPA(Aust.))*

AUTHORISED REPRESENTATIVES

Liu Baoqi
Lau Hon Kee *(FCPA, CPA(Aust.))*

REGISTERED OFFICE

Luoqi Road, High and New
Technology Experimental Zone, Linyi City
Shandong Province, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 10, 11/F, Tower B
Southmark, 11 Yip Hing Street
Wong Chuk Hang, Hong Kong

MEMBERS OF THE AUDIT COMMITTEE

Foo Tin Chung, Victor (Chairman of the Audit Committee)
Fu Hongzheng
Li Hongjian

LEGAL ADVISER TO THE COMPANY

Arculli Fong & Ng
(in association with King & Wood, PRC Lawyers)
9th Floor, Hutchison House, Central, Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
31/F, Gloucester Tower
The Landmark
11 Pedder St., Central
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H-SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Linyi City Luozhuang District Branch
The Centre of Longtan Road
Luozhuang District, Linyi City
Shandong Province, PRC

Industrial and Commercial Bank of China
Linyi City Luozhuang District Branch
Baoquan Road, Luozhuang District
Linyi City, Shandong Province, PRC

STOCK CODE

8058

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), it is my pleasure to present the annual report of Shandong Luoxin Pharmacy Stock Co., Ltd. (hereinafter referred to as the "Company") for the year ended 31 December 2008 (hereinafter referred to as the "Year") for your review.

With an aim of maximizing shareholders' value, our Company is devoted to enhancing the capabilities in research and development and consolidating the sales network development. Through dedication and concerted effort of the management and employees, the Company achieved rapid growth and healthy development. For the year ended 31 December 2008, turnover increased 31.17% to RMB667,792,000, whereas profit attributable to shareholders increased 50.20% to RMB183,155,000.

In the past year, our capabilities in, among others, management, market network development, technology development, capital operation, elite team building, spiritual civilization development, brand building and goodwill have been improved rapidly, which further enhanced our ability to resist risks as well as our overall strength. In order to cope with business development and the ever increasing demand from the market, the third phase of the production capacity expansion project commenced operation after completion. The rapid increase in market share of our products resulted in achieving economies of scale for the Company.

During 2008, the technology centre of our Company was certified as a Provincial Enterprise Technology Centre. Luoxin Pharmacology Post-doctorate Workstation of Shenyang Pharmaceutical University, Luoxin Pharmacology Education and Training Station of Shenyang Pharmaceutical University and Luoxin Pharmacology Internship Station of Shenyang Pharmaceutical University were established. This lays down a more solid foundation for the nurture of talents and enhancement of the standard of technological development of the Company.

As the Company showed predominance in various aspects, we can thus maintain our rapid sustained development. Our advantages include:

1. our remarkable results in successful research and development as well as marketing of state level new medicine;

2. our competitive edge arising from continuous development of new medicine;

3. our experienced management in the pharmaceutical industry;

4. our strength in research and development, and our strong support for research and development as a result of our collaboration with domestic universities and research institutes;

5. our extensive sales and marketing network;

6. our prominent cost advantage achieved by one-stop vertical production ranging from bulk pharmaceutical to finished products.

CHAIRMAN'S STATEMENT

The Directors believe that the pharmaceutical industry will continue to experience rapid growth in 2009. Particularly with the acceleration of implementation of medical reform imposed by the State and the proactive introduction of new cooperative medical initiatives, this will effectively boost the expenses on medical and pharmaceutical treatment. Such huge market potential will enable well-established enterprises enter into a new era of rapid development. Moreover, the Ministry of Health has laid down the "2020 Healthy China" (健康中國2020年) plan, which outlined three stages of development: in the first stage, the PRC should establish a systematic sanitary service system covering urban and rural areas by 2010; in the second stage, the PRC should have good ranking amongst developing countries in terms of sanitary services before 2015; in the third stage, the PRC's sanitary service should maintain a high standard among developing countries by 2020, and it is hoped that she can match the standard of those medium level developed countries. It was also planned that RMB780 billion will be allocated to promote medical services system in three years. If the three-stage plan is implemented as scheduled, the pharmaceutical consumption in the PRC will move into a surging period, which will enable the rapid development of those pharmaceutical enterprises which have potential.

Looking ahead in 2009, our Company has staged into a new horizon and will face new challenges as well as development opportunities. It is to my strongest belief that our Company will be able to maintain more rapid and better development and achieve new historic records.

The rapid development and advancement of the Company always depends on the sustained effort of the management and employees, as well as the incessant support from all the shareholders, customers, suppliers and business partners. I would like to extend my gratitude to all the Directors for their contribution. I would also like to extend my sincere gratitude on behalf of the Board to all those who have devoted their efforts to facilitate the growth of the Company and have been giving tremendous support for the advancement of the Company.

Liu Baoqi
Chairman

9 March 2009

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Baoqi (劉保起), aged 47, is an executive Director and the chairman of the Company. He is responsible for the strategic planning and overall management of the Company. Mr. Liu completed his tertiary education in Economics and Management from the School of Shandong Provincial Communist Party (中共山東省委黨校) in 1996. Mr. Liu obtained the qualification of a pharmacist. He has about 19 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Liu joined Shandong Luoxin Factory (the predecessor of the Company) in 1995. Before joining Shandong Luoxin Factory, Mr. Liu worked for Linyi Luozhuang Pharmacy Company ("Linyi Luozhuang", the predecessor of Linyi Luoxin Pharmacy Company Limited ("Linyi Luoxin")) from 1988 to 1995. Mr. Liu was named the Outstanding Young Entrepreneur in Linyi City (臨沂市優秀青年企業家) and one of the Ten Outstanding Young Persons in Linyi City (臨沂市十大傑出青年) in May and October 1996 respectively. Mr. Liu is also a delegate of the Linyi City People's Congress. Mr. Liu is the uncle of Mr. Liu Zhenhai.

Mr. Liu Zhenhai (劉振海), aged 33, is an executive Director and the vice-chairman of the Company. He is responsible for the overall financial and strategic planning of the Company. He has about 13 years of experience in the medical and pharmaceutical industry in the PRC. Before joining the Company in 2001, Mr. Liu Zhenhai had over 7 years of experience working in the accounting and finance department of Linyi Luozhuang. Mr. Liu Zhenhai is also a delegate of the Linyi City People's Congress. Mr. Liu Zhenhai is the nephew of Mr. Liu Baoqi.

Ms. Li Minghua (李明華), aged 43, is an executive Director, the general manager, chief executive officer and head of the research and development department of the Company. She is responsible for assisting the Chairman in the Company's overall business development and operation. She graduated from Shenyang Pharmacy University (瀋陽藥科大學) with a bachelor's degree in Pharmacy. Ms. Li is a senior professional engineer in medicine in the PRC certified by Hei Long Jiang Human Resources Department (黑龍江人事廳) and a registered practising pharmacist. Before joining the Company in 2001, Ms. Li had over 15 years of experience working in several pharmaceutical enterprises in the PRC.

Mr. Han Fengsheng (韓風生), aged 33, is an executive Director, and the secretary of the Board. Mr. Han graduated from Dalian University (大連大學) majoring in Computer Science. Before joining the Company in November 2001, Mr. Han had over 5 years of experience working in the information technology department of Linyi Luozhuang.

NON-EXECUTIVE DIRECTORS

Mr. Zhou Wuxian (周武先), aged 51, is a non-executive Director and the legal representative of Qingdao Guofeng Group Jiaozhou Pharmacy Limited ("Qingdao Guofeng Jiaozhou"). Mr. Zhou completed his tertiary education in Shandong Chinese Medicine College (山東中醫學院). Mr. Zhou has over 24 years of experience in the medical and pharmaceutical industry in the PRC. In November 2004, Mr. Zhou became a non-executive Director of the Company.

Mr. Yin Chuangui (尹傳貴), aged 52, is a non-executive Director, and the authorized representative of Linyi City People's Hospital ("Linyi People Hospital"), a promoter and an initial management shareholder of the Company. Mr. Yin graduated from Weifang Medical College (濰坊醫學院) with a bachelor's degree specialising in Health Management. In May 2001, Mr. Yin was nominated by Linyi People Hospital as a non-executive Director.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Liu Yuxin (劉玉欣), aged 50, is a non-executive Director. Mr. Liu completed his tertiary education in Yishui Medical College (沂水醫學專科學校). In May 2001, Mr. Liu was nominated by Pingyi County People's Hospital ("Pingyi People Hospital"), a promoter and an initial management shareholder of the Company, as a non-executive Director. Mr. Liu is also a member of the Chinese People's Political Consultative Conference of Shandong Province.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Foo Tin Chung, Victor (傅天忠), aged 40, was appointed as an independent non-executive Director in April 2005. Mr. Foo has over 10 years of experience in the finance and accounting fields. Mr. Foo has been the executive director, financial controller, qualified accountant, company secretary and compliance officer of Jinheng Automotive Safety Technology Holdings Limited, a company listed on GEM since June 2004 and transferred to be listed on Main Board in 2008. Mr. Foo holds a bachelor's degree in Accounting and Information System from the University of New South Wales in Australia and holds a master's degree in Business Administration from Australia Graduate School of Management. He is a CPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Mr. Foo held senior management positions in listed companies in Hong Kong and was an auditor of an international audit firm.

Mr. Fu Hongzheng (付宏征), aged 45, was appointed as an independent non-executive Director in June 2001. Mr. Fu graduated from the Pharmacy School of Yanbian University (延邊大學藥學院) in 1985 with a bachelor's degree and got his master's degree from Shenyang Medical University (瀋陽醫科大學) in 1991.

Ms. Li Hongjian (李宏建), aged 55, was appointed as an independent non-executive Director on 30 November 2006. Ms. Li graduated from the Faculty of Pharmacy of Shandong Medical University (山東醫學院藥學系) in 1976. Since her graduation, Ms. Li has been engaging in pharmacy works in hospitals. She is currently the person-in-charge of the pharmacy department and the Chief Pharmacist in Shandong Qian Fo Shan Hospital（山東千佛山醫院), as well as a part-time professor and a mentor to the graduate school students of Shandong University（山東大學）.

SUPERVISORS

Ms. Gao Xiaoling (高小玲), aged 45, is a supervisor and the vice general manager of Lijun Group Limited Liability Company ("Lijun Group"), a promoter and an initial management shareholder of the Company. In May 2001, Ms. Gao was nominated by Lijun Group as a member of the board of the supervisors of the Company.

Mr. Sun Song (孫松), aged 38, is a supervisor and the manager of the Company's bulk medicine workshop. Mr. Sun graduated from the University of Hei Long Jiang (黑龍江大學) in 1993 majoring in Organic Chemistry.

Mr. Zhu Enqiang (祝恩強), aged 45, is a supervisor and the staff representative of the Company. Before joining the Company in 2001, Mr. Zhu had over 9 years of experience working in Linyi Luozhuang.

Mr. Guan Yonghua (管永華), aged 46, is a director and deputy general manger of Linyi Municipal Pharmacy. On 30 November 2007, Mr. Guan was nominated by Linyi Municipal Pharmacy and appointed as a supervisor of the Company.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ji Honghai (季紅海), aged 34, is the vice general manager of the Company and is responsible for the sales and marketing operation of the Company. Mr. Ji graduated from the University of Jinan City Workers (濟南市職工大學) majoring in Financial Accounting. Mr. Ji joined Shandong Luoxin Factory in 1997. Before joining Shandong Luoxin Factory, he worked for Linyi Luozhuang from 1996 to 1997.

Mr. Zhao Xuekun (趙學昆), aged 73, is the chief engineer of the Company and is responsible for advising on the Company's product development, production technology and GMP compliance issues. Mr. Zhao completed his tertiary education in Shenyang Pharmacy College (瀋陽藥學院). Before joining Shandong Luoxin Factory in 1996, Mr. Zhao had over 39 years of experience working in a hospital, drug control and inspection center and the health department of Linyi City.

Mr. Lau Hon Kee (劉漢基), *FCPA, CPA (Aust.)*, aged 38, is the financial controller and company secretary of the Company. Mr. Lau is responsible for accounting, financial reporting and internal control procedures of the Company. Mr. Lau holds a bachelor's degree in Commerce from Australian National University and a master's degree in Professional Accounting from Hong Kong Polytechnic University. Mr. Lau is also an independent non-executive director of Strong Petrochemical Holdings Limited since November 2008, a company listed on the Stock Exchange. He is a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Before joining the Company in March 2003, Mr. Lau has over 10 years of experience in finance and accounting field, and held senior management positions in several service and manufacturing companies.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENT

During the year under review, the pharmaceutical industry in the PRC continued its booming development. With the proactive medical reforms imposed by the Central Government, together with the persistence of an aging population, the expansion in the scope of medical protection, and increasing health expenses among people, it had significantly increased the demand for medicine, and created new opportunities for the pharmaceutical industry. All of the above indicated that the pharmaceutical industry in the PRC is moving into a new positive cycle with optimistic development prospects.

On the other hand, the Central Government also enhanced the environmental protection standards on the pharmaceutical industry during the year under review. This standardised the environmental protection treatment of pharmaceutical companies to a material extent. Together with the improvement in technologies, the pace of consolidation within the industry speeded up. This allowed competitive enterprises with much broader room for development.

As a leading modern pharmaceutical enterprise in the PRC, the Company fully captured on the immense market opportunities in 2008. Existing businesses expanded proactively, and more resources were devoted to the expansion of production capacity and enhancement of technologies. The Company also accelerated the research and development of new products, which resulted in the continuous development of its business during the year under review. Both turnover and profits recorded satisfactory growth, and also laid a stable foundation for sustained development in future.

BUSINESS REVIEW

For the year ended 31 December 2008, the profits attributable to the shareholders of the Company recorded a tremendous increase over the corresponding period of last year, and the Company achieved strong growth momentum. The Company carried on its strategy of sustained development and attained distinguished advancement and progress in various aspects. The above achievements are the result of the great support and assistance from all shareholders, customers, suppliers and business partners and the public, as well as the sustained and concerted effort of the management and employees of the Company.

During the year under review, the Company continued to implement effective strategies on its seven major systems including management, culture, corporate organization, capital operation, scientific innovation, human resources and marketing, which effectively boosted the Company's development as well as further enhanced the ability to resist risks and the overall strength of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Expanding economies of scale

During the year under review, the third phase of the production capacity expansion project completed and production commenced. Market share of the Company's products increased gradually. The development of economies of scale also facilitated the reduction of production costs. The production capacity for aseptic bulk medicine and special chemical bulk medicine each increased by 200 tonnes. The Company will be able to further increase the gross profit margin of its medicines through continuous expansion in the production capacity of bulk medicine.

Strengthening business foundation

The Company entered into an acquisition agreement with Qilu Medical Investment Management Limited (齊魯醫療投資管理有限公司) ("Qilu Medical") for the acquisition of 20% of its equity interest. Qilu Medical is principally engaged in the management and consultation of medical related business. It is also a licensed pharmaceutical and medical equipment trading company in the PRC. Through the acquisition, the supply chain will be further strengthened and extended. This will strengthen the competitive edge of the Company as a one-stop vertically integrated entity covering research and development, production and sales of medicine.

Enhancing research and development capabilities

The Company has always devoted to the expansion of research and development. Leveraging on its strong capabilities in research and development, the technology centre of the Company was certified as a Provincial Enterprise Technology Centre in September 2008. In addition, the Company collaborated with Shenyang Pharmaceutical University, and established Luoxin Pharmacology Post-doctorate Workstation of Shenyang Pharmaceutical University, Luoxin Pharmacology Education and Training Station of Shenyang Pharmaceutical University and Luoxin Pharmacology Internship Station of Shenyang Pharmaceutical University. Through a multi-faceted collaboration with Shenyang Pharmaceutical University, the technological development of the Company received new impetus for advancement. This also provides a broader channel for technology interchange, nurture of talent and recruitment between both parties.

During 2008, the Company successfully obtained approvals on 27 new products from the State Food and Drug Administration, which further strengthened the Company's product portfolio. These products have wide application and are mainly applied in treating inflammation, analgesia, as well as to the digestive system and respiratory system. They have been sold to medical institutes.

Through leveraging on its strength, the Company has been awarded the "Top Ten Pharmaceutical Enterprises with Growth Potential", and has been one of the "Top 100 Pharmaceutical Companies in China" consecutively since 2006. At the same time, it was the second consecutive year in which the Company was listed as one of the "Small and Medium Enterprises in China with Most Potentials" by Forbes, with the ranking significantly jumped by 144 places to number 34 in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2008, the Company's audited turnover was approximately RMB667,792,000, representing an increase of approximately 31.17% when compared with approximately RMB509,092,000 for the corresponding period of last year. The increase in turnover was attributable to the effort of the Company in introducing high added value products, consolidating product portfolio, speeding up the development of sales network so as to increase the market share of its products.

For the year ended 31 December 2008, the audited cost of sales was approximately RMB351,196,000, representing an increase of 34.75% when compared with approximately RMB260,628,000 for the corresponding period of last year. The increase in the cost of sales was in line with the growth in turnover.

For the year ended 31 December 2008, the audited gross profit margin was 47.41%, representing a decrease of approximately 1.4 percentage points when compared with 48.81% for the corresponding period of last year.

For the year ended 31 December 2008, the audited operating expenditure was approximately RMB78,307,000, representing an increase of 17.50% when compared with approximately RMB66,642,000 for the corresponding period of last year.

For the year ended 31 December 2008, the audited profit attributable to shareholders was approximately RMB183,155,000, representing an increase of 50.20% when compared with approximately RMB121,943,000 for the corresponding period of last year. Weighted average earnings per share for the year ended 31 December 2008 was RMB0.3.

LIQUIDITY AND FINANCIAL RESOURCES

The Company's working capital is generally financed by its internally generated cash flow.

As at 31 December 2008, the Company's cash and cash equivalents amounted to approximately RMB145,458,000 (as at 31 December 2007: RMB116,223,000). As at 31 December 2008, the Company did not have any borrowings (as at 31 December 2007: RMB30,500,000).

PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

As at 31 December 2008, bank deposits of RMB14,840,000 were pledged as security for remittance under acceptance (as at 31 December 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR ACQUISITION AND DISPOSAL

During the year ended 31 December 2008, the Company did not have any major acquisition or disposal.

MAJOR INVESTMENT

During the year ended 31 December 2008, the Company paid RMB19,620,000 in advance on 8 May 2008 to acquire 20% equity interests in Qilu Medical (equivalent to RMB18,000,000 of the enlarged registered capital of Qilu Medical) at a premium ratio of 1.09:1. Such investment was approved by a resolution of shareholders of the Company passed at the first extraordinary general meeting of the Company in 2008 held on 17 July 2008.

CONTINGENT LIABILITIES

As at 31 December 2008, the Company did not have any substantial contingent liabilities.

EXCHANGE RISK

All the Company operates and conducts business in the PRC and all the Company's transactions, assets and liabilities are denominated in Renminbi.

Almost the Company's cash and cash equivalents and pledged bank deposits are denominated in Renminbi, while bank deposits are placed in banks in the PRC. Any remittance from the PRC are subject to the restrictions on foreign exchange control implemented by the PRC government.

EMPLOYEES AND REMUNERATION POLICIES

The Directors believe that employees' quality is the most important factor in maintaining the sustained development and growth of the Company and raising its profitability. The Company determines employees' salaries based on their performance, working experience and the prevailing salaries in the market, while other remuneration and fringe benefits are at appropriate levels.

The Company has established a Remuneration Committee to make recommendations on the overall strategy of remuneration policies.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

With the increasing emphasis placed by the State on the development of pharmaceutical industry and the medical protection benefits of its people, and the approval in principal by the State Council in January 2009 for The Opinion Concerning Further Reform on Medical and Sanitary Systems and The Implementation Scheme for Further Reform on Medical and Sanitary Systems between 2009 and 2011, different levels of government in the PRC are expected to allocate a total of RMB780 billion in the coming three years to accelerate and promote the establishment of a fundamental medical protection system. It is anticipated that this will bring more business opportunities to the pharmaceutical industry. Therefore, the management of the Company is optimistic towards the prospects in the development of the pharmaceutical industry.

Looking ahead, the Company will adequately capitalize on the opportunities arising from the consolidation of the pharmaceutical industry through adhering to its strategic guiding principle of becoming a "Technology-driven enterprise with determination and efforts". The Company will continue to focus on products research and development and enhance the capability of its research and development teams. The building of sales team will speed up, so as to establish a broader sales network for enhancing the market share of its products. In addition, the Company will also devote to the reduction of production cost and the acceleration of the expansion in the scale of production and sales, so as to create competitive advantages from economies of scale, low cost and differentiation. With the launch of more high-value added products, the management of the Company is confident that the growth of its businesses will remain steady and will bring satisfactory return to its shareholders.

As the proposal for transferring the listing of the Company to the Main Board was already duly passed at the extraordinary general meeting and respective class meetings convened on 24 October 2008, the Directors believe that the transfer of the listing to the Main Board will further enhance the corporate image and the liquidity and recognition in the trading of the Company's shares. This is definitely beneficial to the future growth and business development of the Company in the long term.

CORPORATE GOVERNANCE REPORT

Pursuant to Rules 18.44 of the GEM Listing Rules, the Board presents this corporate governance report to disclose its corporate governance practices adopted during the year to the shareholders. This report highlights some of the most important corporate governance practices of the Company.

The Board considers that good corporate governance of the Company is the key to safeguarding the interests of its shareholders and enhancing the performance of the Company. The board is committed to maintain and ensure high standards of corporate governance and will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner. During the year, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules.

THE BOARD

The Board comprises of 4 executive Directors, namely, Mr. Liu Baoqi, Mr. Liu Zhenhai, Ms. Li Minghua and Mr. Han Fengsheng with Mr. Liu Baoqi acting as chairman of the Board, 3 non-executive Directors, namely, Mr. Zhou Wuxian, Mr. Yin Chuangui and Mr. Liu Yuxin and 3 independent non-executive Directors, namely, Mr. Foo Tin Chung, Victor, Mr. Fu Hongzheng and Ms. Li Hongjian. As the Company was established in the PRC, 4 supervisors namely, Ms. Gao Xiaoling, Mr. Sun Song, Mr. Zhu Enqiang and Mr. Guan Yonghua were appointed to monitor the decision making of the Board.

Biographical details of the Directors and supervisors and their respective relationships (if any) have been set out in the section "Profiles of Directors, supervisors and senior management" in this report.

In accordance with the article 96 of the articles of association of the Company, (the "Articles of Association"), the current term of the Directors (including non-executive Directors) is for a period of 3 years running from 30 November 2007, the date on which the above Directors were duly re-elected and appointed.

The Board is responsible for the overall strategic development and operation of the Company. The board is also responsible for the financial performance and internal control policies and procedures of the Company's business operation.

COMMITMENTS

The full Board will meet each quarter, to review the overall development, operation and financial performance of such period and other matters of the Company that require the approval of the Board. All Board members are given access to board materials and are given reasonable time to review information and sufficient time for consideration. The Chairman is responsible for preparing the agenda of Board meetings.

Moreover, the Board meets regularly to discuss the daily operation issues of the Company. For those non-executive and independent non-executive Directors who are not personally present at such Board meetings, conference call will be arranged so as to enable the Company to take advice actively from them.

CORPORATE GOVERNANCE REPORT

APPOINTMENT OF DIRECTORS

The Directors carried out their duties in a dedicated, diligent and proactive manner with reasonable prudence. They carried out their duties imposed by the Company Law, Companies Ordinances, the Articles of Association and the GEM Listing Rules, complied with relevant requirements and strictly implemented resolutions passed at general meetings.

Executive Directors were appointed based on their expertise and are responsible for different areas of the Company's business. The non-executive Directors and supervisors were mostly appointed through the nominations made by certain initial management shareholders, promoters or staff union, who would be able to monitor the decision making of the Board and operation of the Company.

Although two of the promoters, namely, Linyi People Hospital and Pingyi People Hospital, sold their shares in the Company to independent investors and Linyi Luoxin during October 2007, as they played a role in the Company's performance and transactions in 2008 and will continue to play their role in subsequent events in 2009, the non-executive directors nominated by them will remain on the Board until further arrangement.

The independent non-executive Directors also serve another important role in the Board. They bring independent judgement on issues of strategic direction and future development; opine on connected transactions and risk management on audit issues. One of the independent non-executive Directors is a qualified accountant and the rest of them posses the qualification set out in GEM Listing Rules. The Board has received annual confirmation in respect of the independence of each of the independent non-executive Directors and believes that their independence is in compliance with the GEM Listing Rules as at the date of this report.

The Board will consider the past performance, qualification, general market conditions and the Articles of Association in selecting and recommending candidates for directorships. All directors are regularly updated on governance and regulatory matters and are entitled to have access to independent professional advice pursuant to the internal policies of the Company.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

During year 2008, the Board held 4 meetings. Directors were given sufficient time to review documents and information relating to matters discussed during such meetings.

Details of Directors' attendance at Board meetings held in 2008 are as follows:

	Dates of meeting			
Board Meetings	**4 March**	**7 May**	**5 August**	**28 October**
Executive Directors				
Mr. Liu Baoqi	✓	✓	✓	✓
Mr. Liu Zhenhai	✓	✓	✓	✓
Ms. Li Minghua	✓	✓	✓	✓
Mr. Han Fengsheng	✓	✓	✓	✓
Non-executive Directors				
Mr. Zhou Wuxian	✓	✓	✓	✓
Mr. Yin Chuangui	✓	✓	✓	✓
Mr. Liu Yuxin	✓	✓	✓	✓
Independent non-executive Directors				
Mr. Foo Tin Chung, Victor	✓	✓	✓	✓
Mr. Fu Hongzheng	✓	✓	✓	✓
Ms. Li Hongjian	✓	✓	✓	✓

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, after making specific enquiries with the Directors, the Directors have complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors for the year ended 31 December 2008.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under A.2.1 of the Code, "the roles of chairman and chief executive officer should be separated and should not be performed by the same individual". During the year ended 31 December 2008, Mr. Liu Baoqi served as chairman of the Board and Ms. Li Minghua served as the general manager and chief executive officer of the Company.

CORPORATE GOVERNANCE REPORT

COMMITTEES

As part of the corporate governance practices, the Board has established the following committees which are all chaired by and comprise independent non-executive Directors.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") was established on 20 November 2005 and its members during the year ended 31 December 2008 were:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Ms. Li Hongjian

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with paragraph C3 of the Code Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The duties of the Audit Committee are to review and supervise the financial reporting process and the Company's internal control policies and procedures. The appointments of the Audit Committee members are based on their broad experience in the medicinal field and professional knowledge in financial reporting and management.

The Audit Committee meets regularly to review the financial reporting matters and internal control policies and procedures issues; and see how the Company can comply with these requirements. The Audit Committee also acts as the communication bridge between the Board and the auditors in relation to the planning and scope of audit work. The audited results of the Company for the year have been reviewed by the Audit Committee.

During the year ended 31 December 2008, the Audit Committee held four meetings and details of attendances at the meetings are shown below:

	Dates of meeting			
Audit Committee Meetings	**29 February**	**5 May**	**4 August**	**27 October**
Independent non-executive Directors				
Mr. Foo Tin Chung, Victor	✓	✓	✓	✓
Mr. Fu Hongzheng	✓	✓	✓	✓
Ms. Li Hongjian	✓	✓	✓	✓

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The remuneration committee of the Company ("Remuneration Committee") was established in December 2005 and its members during the year ended 31 December 2008 were:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Ms. Li Hongjian

The Company established the Remuneration Committee with written terms of reference in compliance with paragraph B1 of the Code. The duties of the Remuneration Committee include the evaluation of the performance and making of recommendations on the remuneration package of the Directors and senior management and the evaluation and making of recommendations on other employee benefit arrangements.

The appointments of the Remuneration Committee members are based on their broad experience in the medicinal field and knowledge in financial management, in particular, the remuneration to local workforces, as Mr. Fu Hongzheng and Ms. Li Hongjian are both experienced medical professionals in the PRC.

During the year ended 31 December 2008, the Remuneration Committee held four meetings and details of the attendances at the meetings are shown below:

	Dates of meeting			
Remuneration Committee Meetings	**29 February**	**5 May**	**4 August**	**27 October**
Independent non-executive Directors				
Mr. Foo Tin Chung, Victor	✓	✓	✓	✓
Mr. Fu Hongzheng	✓	✓	✓	✓
Ms. Li Hongjian	✓	✓	✓	✓

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders and public investors. Information of the Company is disseminated to the shareholders and interested parties in the following manner:

- delivery of annual, quarterly and interim results and reports to all shareholders and interested parties;

- publication of announcements on annual quarterly and interim results on the Stock Exchange websites, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the GEM Listing Rules;

CORPORATE GOVERNANCE REPORT

The Company appointed the IR division of Quam (H.K.) Limited as the Company's investor relationship service provider. All of the Company's investor relationship information can be found on:

http://quamir.com/quamir/ircompanydetail.action?coId=1128&isIr=Y

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts for each financial period by the management. The Directors are also committed to make appropriate announcement, in accordance with GEM Listing Rules, to disclose all information that is necessary for shareholders to assess the financial performance and other matters of the Company.

During the year ended 31 December 2008, the Board has reviewed the engagement of auditors and their remuneration. The auditor of the Company would receive approximately HK$546,000 for audit and related service and approximately HK$208,000 for other services.

INTERNAL CONTROL

The Board is also responsible for reviewing the internal control policies of the Company regularly senior management members are required to work in accordance with the internal policies and procedures implemented by the Company. The Company has developed and established an Internal Control Policies and Procedures prior to the listing of its H Shares on GEM in December 2005. This set of policies and procedures monitors the operation of the Company in 3 areas, namely: sales and accounts receivables cycles, purchase and accounts payables cycles, and other policies and procedures, including statutory and regulatory reporting and disclosure requirements. Emphasis has been placed on the level of approval on the utilization of the Company's resources and compliance with financial reporting and disclosure requirements. The Audit Committee will also advise on internal control issues and take an active role in communicating with the Directors and senior management for the best practice of internal control of the Company.

The Company will keep on reviewing the policies and procedures in order to maintain a high level of internal control of its operation.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors for the year ended 31 December 2008 (the "year").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is the manufacturing and sales of pharmaceutical products.

RESULTS AND DIVIDENDS

The results of the Company for the year are set out in the income statement on page 31 of this annual report.

The Directors recommend the payment of a final dividend of RMB0.02 per ordinary share, totalling RMB12,192,000. Such recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

CLOSURE OF REGISTER OF MEMBERS

The registers of members of the Company will be closed from 28 March 2009 to 27 April 2009 (both days inclusive). All properly completed H Shares transfer forms accompanied by the relevant share certificates must be lodged with the Register of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 27 March 2009, for registration.

RESERVES

Movements in the reserves of the Company during the year are set out in Note 31 to the accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company are set out in Note 18 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 30 to the accounts.

DISTRIBUTABLE RESERVES

According to the Company Law of the People's Republic of China, the distributable reserves of the Company at 31 December 2008, amounted to approximately RMB363,603,000 (2007: RMB192,817,000).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years is set out on page 80 of this report.

REPORT OF THE DIRECTORS

COMPARISON BETWEEN BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS

The business objectives stated in the prospectus which remain still outstanding and not yet fulfilled are the commencement of promotional activities for and production of Rhodiola for Injection.

The promotional activities for Rhodiola for Injection, including press release and other target customer oriented promotional activities, has not yet officially commenced as the Company has not obtained the production approval yet. But the patent in respect of Rhodiola for Injection has been obtained by the Company on 10 May 2006 of which was widely reported.

The production of Rhodiola for Injection is not yet commenced either and the Company is in the process of obtaining the production approval from PRC government.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. The Company has not purchased or sold any of the Company's listed securities during the year.

SHARE OPTIONS

The Company did not adopt any share option plan since its establishment.

Directors

The Directors during the year were:

Executive Directors

Mr. Liu Baoqi (劉保起)
Mr. Liu Zhenhai (劉振海)
Ms. Li Minghua (李明華)
Mr. Han Fengsheng (韓風生)

Non-executive Directors

Mr. Liu Yuxin (劉玉欣)
Mr. Yin Chuangui (尹傳貴)
Mr. Zhou Wuxian (周武先)

Independent non-executive Directors

Mr. Fu Hongzheng (付宏征)
Mr. Foo Tin Chung, Victor (傅天忠)
Ms. Li Hongjian (李宏健)

REPORT OF THE DIRECTORS

In accordance with Article 96 of the Articles of Association adopted by the shareholders of the Company on 20 November 2005, the term of directorship for most of the Directors is for a term of three years running from 30 November 2004, being the date of the general meeting of the Company which approved the appointment of the Directors. The last term of the Directors' service expired and the Directors were re-elected as follows:

Mr. Liu Baoqi (劉保起), Mr. Liu Zhenhai (劉振海), Ms. Li Minghua (李明華) being executive Directors, retired and were re-elected on 30 November 2007.

Mr. Han Fengsheng (韓風生), an executive Director was appointed on 30 November 2006. Mr. Han entered into a service agreement with the Company for a term of three years commencing from 30 November 2006, subject to the retirement and re-election requirements of the Article of Association at the next annual general meeting of the Company. Mr. Han retired and was re-elected on 30 November 2007.

Mr. Liu Yuxin (劉玉欣), Mr. Yin Chuangui (尹傳貴), Mr. Zhou Wuxian (周武先), non-executive Directors, retired and were re-elected on 30 November 2007.

Mr. Fu Hongzheng (付宏征), an independent non-executive Director, retired and was re-elected on 30 November 2007.

Mr. Foo Tin Chung, Victor (傅天忠), an independent non-executive Director, was appointed on 8 April 2005. Mr. Foo retired and was re-elected on 30 November 2007.

Ms. Li Hongjian (李宏建), an independent non-executive Director was appointed on 30 November 2006. Ms. Li entered into a service agreement with the Company for a term of three years commencing from 30 November 2006, subject to the retirement and re-election requirements of the Article of Association at the next annual general meeting of the Company. Ms. Li retired and was re-elected on 30 November 2007.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executives Directors, independent non-executive Directors and supervisors of the Company entered into a service contract with the Company commencing from various dates of their respective appointments for a term of three years.

Save as disclosed above, none of the Directors and supervisors of the Company has entered into service contracts with Company which were not terminable by the Company within one year without compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Save as disclosed above, none of the Directors and supervisors of the Company had a material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business during the year.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2008, the interests and short positions of each Directors and supervisors of the Company in the shares, underlying shares and debentures of the Company, as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long position of domestic shares of the Company ("Domestic Shares"), as at 31 December 2008

Name of Director	Capacity/ Nature of Interest	Number of Domestic Shares	% of Total Issued Domestic Shares	% of Company's Share Capital
Mr. Liu Baoqi (劉保起) *(Note 1)*	Interest of controlled corporation	238,639,949	53.62%	39.15%
Mr. Liu Zhenhai (劉振海)	Beneficial Owner	35,000,000	7.86%	5.74%

Note 1: These 238,639,949 Domestic Shares are registered in the name of Linyi Luoxin. Liu Baoqi (劉保起) is interested in 51.72% of the registered share capital of Linyi Luoxin. As Liu Baoqi (劉保起) is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Linyi Luoxin, for the purpose of the SFO, Liu Baoqi (劉保起) is deemed to be interested in the entire 238,639,949 Domestic Shares held by Linyi Luoxin. The total number of Domestic Shares deemed to be interested by Liu Baoqi (劉保起) as at 31 December 2008 was 238,639,949 (representing 53.62% of total issued Domestic Shares and 39.15% of Company's share capital).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

In respect of the register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2008, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and supervisors of the Company.

REPORT OF THE DIRECTORS

Long position of domestic shares of the Company, as at 31 December 2008

Name	Capacity/ Nature of Interest	Number of Domestic Shares	% of Total Issued Domestic Shares	% of Company's Share Capital
Linyi Luoxin	Beneficial Owner	238,639,949	53.62%	39.15%
Zuo Hongmei (左洪梅)	Family interest *(Note 1)*	238,639,949	53.62%	39.15%
Cao Tingting (曹婷婷)	Family interest *(Note 2)*	35,000,000	7.86%	5.74%
Liu Zhendong (劉振東)	Beneficial Owner	35,000,000	7.86%	5.74%
Chen Weiwei (陳偉偉)	Family interest *(Note 3)*	35,000,000	7.86%	5.74%

Notes:

1. These 238,639,949 Domestic Shares are registered in the name of Linyi Luoxin. Linyi Luoxin is owned as to approximately 51.72% by Liu Baoqi (劉保起). As Liu Baoqi (劉保起) is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Linyi Luoxin, for the purpose of the SFO, Liu Baoqi (劉保起) is deemed to be interested in the entire 238,639,949 Domestic Shares held by Linyi Luoxin. Zuo Hongmei (左洪梅), as the wife of Liu Baoqi (劉保起), is taken to be interested in the entire 238,639,949 Domestic Shares held by Liu Baoqi (劉保起).

2. These 35,000,000 Domestic Shares are registered in the name of Liu Zhenhai (劉振海). For the purpose of the SFO, Cao Tingting (曹婷婷), as the wife of Liu Zhenhai (劉振海), is taken to be interested in the entire 35,000,000 Domestic Shares held by Liu Zhenhai (劉振海).

3. These 35,000,000 Domestic Shares are registered in the name of Liu Zhendong (劉振東). For the purpose of the SFO, Chen Weiwei (陳偉偉), as the wife of Liu Zhendong (劉振東), is taken to be interested in the entire 35,000,000 Domestic Shares held by Liu Zhendong (劉振東).

4. Each of Cao Tingting, Liu Zhendong (劉振東), Chen Weiwei, is not considered to be a substantial shareholder for the purpose of the GEM Listing Rules as each of them is only interested in less than 10% of the total registered share capital of the Company.

REPORT OF THE DIRECTORS

CONTRACTS OF SIGNIFICANCE

During the year, the Company did not enter into any significant contract. However, a framework agreement of continuing connected transaction was entered into with Linyi Luoxin, the controlling shareholder of the Company in 2007 which remained effective during the year. Please refer to the section on Connected Transactions and Continuing Connected Transactions for details.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR SUPPLIES AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Company's major suppliers and customers are as follows:

Purchases	
– the largest supplier	12.8%
– five largest suppliers combined	39.1%
Sales	
– the largest customer	8.5%
– five largest customers combined	20.8%

During the year ended 31 December 2008, the sales of chemical medicines to Linyi Luoxin, Linyi People Hospital and Pingyi People Hospital amounted to approximately RMB56,890,000, RMB13,610,000 and RMB1,319,000 respectively. Linyi Luoxin is the largest customer of the Company for the year ended 31 December 2008.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2008, the Company had the following non-exempt continuing connected tractions, details of which are set out below:

		Annual Cap for the financial years ending 31 December		
	Nature of transaction	**2007**	**2008**	**2009**
(a)	Sales of chemical medicines by the Company to Linyi Luoxin pursuant to a framework agreement dated 16 September 2007	RMB20 million	RMB85 million	RMB120 million
(b)	Sales of chemical medicines by the Company to Linyi People Hospital pursuant to a framework agreement dated 16 September 2007	RMB4 million	RMB16 million	RMB22 million
(c)	Sales of chemical medicines by the Company to Pinyi People Hospital pursuant to a framework agreement dated 16 September 2007	RMB1.5 million	RMB6 million	RMB8 million

Linyi Luoxin is the single largest and a substantial shareholder of the Company. Linyi People Hospital and Pinyi People Hospital are promoters of the Company. They are therefore connected persons of the Company pursuant to Rule 20.11 of the GEM Listing Rules. The sale of the chemical medicines by the Company to Linyi Luoxin, Linyi People Hospital and Pinyi People Hospital pursuant to the respective framework agreements constitute continuing connected transactions of the Company, details of which are set out in an announcement and a circular issued by the Company on 16 September 2007 and 6 October 2007 respectively.

During the year ended 31 December 2008, the sales of chemical medicines by the Company to Linyi Luoxin, Linyi People Hospital and Pinyi People Hospital amounted to approximately RMB56,890,000, RMB13,610,000 and RMB1,319,000 (2007: RMB918,000, RMB1,007,000, Nil) respectively which did not exceed the annual cap for the relevant transactions. Further details are set our in Note 35 to the financial statements. The Company received confirmation from auditors that these transactions are complied with the matters stated in Rule 20.38 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

The independent non-executive Directors, who are not interested in any of the above continuing connected transactions, have reviewed and confirmed that the above continuing connected transactions have been entered into by the Company:

(a) in the ordinary and usual course of the business of the Company;

(b) on terms no less favourable to the Company than terms available from independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Directors have received a letter from the auditors in respect of the continuing connected transactions as required by Rule 20.38 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

COMPETING BUSINESS

Set out below is information disclosed pursuant to paragraph 11.04 of GEM Listing Rules:

Linyi Luoxin

Linyi Luoxin is the controlling shareholder of the Company which holds 39.15% of the Company's issued share capital. The chairman of the Company Mr. Liu Baoqi is also an executive director and chairman of Linyi Luoxin and a controlling shareholder holding 51.72% of the registered capital of Linyi Luoxin.

Before a non-competition undertaking in favour of the Company was signed by Linyi Luoxin on 7 November 2002, Linyi Luoxin was engaged in the sales of chemical medicines, Chinese medicines, medical equipment, health and beauty products. Since the execution of the non-competition undertaking, Linyi Luoxin has ceased its chemical medicine business. In June 2005, Linyi Luoxin signed a supplementary non-competition undertaking whereby it will carry out its sales activities in Linyi City only and confirmed that its customers are small and mid-sized medical institutions which are hospitals below county-level. The Company received from Linyi Luoxin an annual confirmation in respect of the compliance of these undertakings.

Linyi Municipal Pharmacy Group Company ("Linyi Municipal Pharmacy")

Linyi Municipal Pharmacy is a State-owned enterprise established in the PRC, holding approximately 1.42% of the registered share capital of the Company. Linyi Municipal Pharmacy is principally engaged in the sales of Chinese and chemical medicines, medical equipment and health products in Linyi City and nearby districts. To the best knowledge of the Directors, Linyi Municipal Pharmacy does not and will not engage in the development and manufacturing of medicine products and it has no research and development and/or production capabilities for medicine manufacturing in the PRC.

REPORT OF THE DIRECTORS

Linyi Municipal Pharmacy serves as a regional distributor in Linyi city and nearby districts, and purchases medicine products from other suppliers in the PRC. The Directors advised that some medicine products sold by Linyi Municipal Pharmacy having the same or similar curative effects with those of the Company may be in competition with the products of the Company.

Save as disclosed above, none of the Directors, the substantial shareholders of the Company or their respective associate (as defined in the GEM listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

COMPLIANCE ADVISER'S INTERESTS

As at 31 March 2008, as notified by the Company's compliance adviser, Kingsway Capital Limited (the "Compliance Adviser"), neither the Compliance Adviser nor any of its directors, employees or associates had any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company.

Pursuant to the compliance adviser agreement dated 28 November 2005 entered into between the Company and the Compliance Adviser, the Compliance Adviser shall receive a fee for acting as the Company's compliance adviser for the period from 9 December 2005 to 31 March 2008.

The compliance adviser agreement expired on 31 March 2008 and the Company had not renewed the said agreement or appointed another compliance adviser.

AUDITORS

The accounts have been audited by HLB Hodgson Impey Cheng who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board
Liu Baoqi
Chairman

Hong Kong, 5 March 2009

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF SHANDONG LUOXIN PHARMACY STOCK CO., LTD.

(incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Shandong Luoxin Pharmacy Stock Co., Ltd. (the "Company") set out on pages 31 to 79, which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITORS' REPORT

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 5 March 2009

INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	6	**667,792**	509,092
Cost of sales		**(351,196)**	(260,628)
Gross profit		**316,596**	248,464
Other revenue	6	**2,613**	3,323
Other income	8	**2,894**	2,368
Selling and distribution expenses		**(48,869)**	(33,585)
General and administrative expenses		**(29,438)**	(33,057)
Share of profit of associate	15	**3,107**	–
Finance costs	7	**(1,250)**	(4,554)
Profit before taxation	8	**245,653**	182,959
Taxation	9	**(62,498)**	(61,016)
Profit for the year attributable to equity holders of the Company		**183,155**	121,943
Dividends	10	**12,192**	12,192
Earnings per share attributable to equity holders of the Company (RMB)	14		
– Basic and diluted		**0.300**	0.200

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Interest in associate	15	22,727	–
Purchased technical know-how	16	2,690	1,625
Prepayments to acquire technical know-how	17	10,100	11,370
Property, plant and equipment	18	250,898	113,182
Construction-in-progress	19	–	82,429
Prepaid lease payments	20	11,175	11,448
Deferred tax assets	21	1,682	2,685
		299,272	222,739
Current assets			
Inventories	22	131,278	69,106
Trade and bills receivables	23	68,202	53,899
Other receivables, deposits and prepayments	24	37,512	8,602
Pledged bank deposits	25	14,840	–
Cash and bank balances	25	130,618	116,223
		382,450	247,830
Current liabilities			
Trade and bills payables	26	65,854	32,175
Other payables and accruals	27	87,648	47,621
Deposits received		8,194	7,463
Taxation payable		7,431	11,178
Short-term bank loans	28	–	30,500
		169,127	128,937
Net current assets		213,323	118,893
Total asset less current liabilities		512,595	341,632
Non-current liabilities			
Deferred income	29	20,380	20,380
Net assets		492,215	321,252
Capital and reserves			
Share capital	30	60,960	60,960
Reserves (including proposed final dividend of RMB12,192,000) (2007: RMB12,192,000)	31	431,255	260,292
Total equity		492,215	321,252

Approved by the Board of Directors on 5 March 2009 and signed on its behalf by:

Liu Baoqi
Director

Liu Zhenhai
Director

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Total equity, beginning of the year	**321,252**	211,501
Profit attributable to equity holders of the Company	**183,155**	121,943
Dividend paid	**(12,192)**	(12,192)
Total equity, end of the year	**492,215**	321,252

CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Profit before taxation		**245,653**	182,959
Adjustments for:			
Interest income		**(842)**	(1,392)
Interest expense		**1,250**	4,554
Share of profit of associate	15	**(395)**	–
Excess of the Company's interest in the net fair value of associate's identifiable assets, liabilities and contingent liabilities over cost	15	**(2,712)**	–
Reversal of obsolete inventories written down	22	**(354)**	(626)
Reversal of impairment loss recognised in respect of trade receivables	23	**(215)**	(1,187)
Reversal of impairment loss recognised in respect of other receivables	24	**(45)**	(555)
Depreciation of property, plant and equipment	18	**13,030**	9,360
Loss on disposal of property, plant and equipment		**283**	15
Write down of obsolete inventories	22	**879**	299
Impairment loss recognised in respect of prepayments to acquire technical know-how	17	**170**	–
Impairment loss recognised in respect of trade receivables	23	**535**	251
Impairment loss recognised in respect of other receivables	24	**433**	354
Amortisation of prepaid lease payments	20	**273**	118
Amortisation of purchased technical know-how	16	**935**	1,094
Operating profit before working capital changes		**258,878**	195,244
(Increase)/decrease in inventories		**(62,697)**	6,147
Increase in trade and bills receivables		**(14,623)**	(14,844)
(Increase)/decrease in other receivables, deposits and prepayments		**(29,298)**	8,310
Increase/(decrease) in trade and bills payables		**33,679**	(10,826)
Increase in deposits received		**731**	–
Increase in other payables and accruals		**39,127**	15,048
Cash generated from operations		**225,797**	199,079
Interest received		**842**	1,392
Interest paid		**(1,250)**	(4,554)
PRC income tax paid		**(65,242)**	(54,519)
Net cash inflow from operating activities		**160,147**	141,398

CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from investing activities			
Acquisition of associate	15	**(19,620)**	–
Purchase of property, plant and equipment		**(10,953)**	(11,986)
Additions of prepaid lease payments		**–**	(10,027)
Additions of construction-in-progress		**(59,566)**	(82,429)
Proceeds from disposal of property, plant and equipment		**1,919**	145
Increase in prepayments to acquire technical know-how		**–**	(110)
Net cash outflow from investing activities		**(88,220)**	(104,407)
Cash flows from financing activities			
Dividend paid		**(12,192)**	(12,192)
New bank loans	32	**60,000**	30,500
Repayment of bank loans	32	**(90,500)**	(78,700)
(Increase)/decrease in pledged bank deposits		**(14,840)**	22,233
Net cash outflow from financing activities		**(57,532)**	(38,159)
Net increase/(decrease) in cash and cash equivalents		**14,395**	(1,168)
Cash and cash equivalents at the beginning of the year		**116,223**	117,391
Cash and cash equivalents at the end of the year		**130,618**	116,223
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**130,618**	116,223

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company by way of promotion with a registered capital of Renminbi ("RMB") 46 million. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd. The H shares of the Company have been listed on the growth enterprise market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2005.

The Company's registered office is located at Luoqi Road, High and New Technology Experimental Zone, Linyi City, Shandong Province, the PRC.

The principal activities of the Company are the manufacturing and sales of pharmaceutical products.

The financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated.

These financial statements were approved for issue by the Board on 5 March 2009.

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

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued the following amendments and interpretations ("new HKFRSs") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

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

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

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

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

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

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the financial statements.

Basis of preparation

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

Investment in associate

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in associate (Continued)

Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where the Company transacts with the associate, profits and losses are eliminated to the extent of the Company's interest in the associate.

Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20 – 40 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 4).

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

Construction-in-progress

Construction-in-progress comprises buildings, plant and machinery on which construction work or installation has not been completed and which, upon completion, management intends to use for long-term purpose. It is stated at cost which includes construction expenditure incurred, interest on loan and other direct costs attributable to the construction or installation less any accumulated impairment losses. On completion, the buildings, plant and machinery are transferred to respective categories at cost less any accumulated impairment losses.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land

Interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight-line basis.

Purchased technical know-how

Purchased technical know-how is stated at cost less accumulated amortisation and any accumulated impairment losses. It is recognised as an intangible asset if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and amortised on a straight-line basis over its estimated economic life of a period of five years since the commencement of related production.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company considers whether a contract contains an embedded derivative when the Company first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, being the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity

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

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and financial liabilities at amortised costs.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are classified into (i) financial liabilities held for trading and (ii) those designated as at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and interest-bearing loans advanced from shareholders are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

Research costs are expensed as incurred. Development costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset when it is probable that the project will be a success consisting its commercial and technological feasibility, and costs can be measured reliably. Such development costs are recognised as an asset and amortised from the commencement of the commercial production of the product on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. 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.

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Share capital

Share capital is classified as equity.

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required 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 benefit 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.

Income tax

Income tax for the year comprises current tax and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Employee leave entitlements

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

Pension obligations

The Company's contributions to defined contribution retirement schemes are expensed as incurred.

Borrowings

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

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

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received.

Government grant relating to purchase of property, plant and equipment is included in non-current liabilities as deferred income and is expensed in the income statement on a straight-line basis over the expected useful lives of the related assets.

Foreign and presentation currency

Functional and presentation currency

Items included in the accounts of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The accounts are presented in Renminbi, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividend distribution

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

Related party transactions

A party is considered to be related to the Company if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Estimated impairment of purchased technical know-how

The Company assesses annually whether purchased technical know-how has suffered any impairment, in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require estimation on future cash flow generated from these purchased technical know-how.

Taxation

The Company is subject to PRC enterprise income tax and value-added tax. Since PRC tax rules are complicated and there may be new PRC tax rules and regulations from time to time, the Company recognised tax liabilities based on estimates of tax liabilities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Company estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands. The Company also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

Write down obsolete inventories

The management of the Company reviews an aging analysis at each balance sheet date, and write down obsolete and slow-moving inventory items. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Company carries out an inventory review on a product-by-product basis at each balance sheet date and write down obsolete items.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Trade and other receivables

The debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However from time to time, the Company may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for trade receivable are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provision are not made could affect the results of operations.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are primarily based on market conditions existing at each balance sheet date.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Financial assets		
Loan and receivables (including cash and cash equivalents)	**217,572**	173,632
Financial liabilities		
Amortised cost	**161,696**	117,759

(b) Financial risk management objectives and policies

The main risks arising from the Company's financial instruments are market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) *Financial risk management objectives and policies* (Continued)

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Market exposures are measured by sensitivity analysis.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk management

The Company's interest rate risk arises from interest-bearing borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company did not enter into interest rate swap to hedge against its exposures to changes in fair values of the borrowings.

The Company considers that there is no significant cash flow interest rate risk as the Company does not have variable rate borrowings.

Foreign exchange risk management

The Company operates and conducts business in the PRC and all the Company's transactions, assets and liabilities are primarily denominated in RMB and Hong Kong Dollars ("HKD"), which expose the Company to foreign currency risk. The Company does not have any formal hedging policy.

The carrying amounts of the Company's foreign currency denominated assets are as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Assets		
HKD	**39**	39

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) ***Financial risk management objectives and policies*** (Continued)

Market risk (Continued)

Sensitivity analysis on foreign exchange risk

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Impact of HKD		
Profit or loss#	**(2)**	(2)

This is mainly attributable to the exposure outstanding on cash and bank balances denominated in HKD not subject to cash flow hedge at year end.

Price risk

The Company is exposed to the increasing price competition and life cycle of the products that have elastic price sensitive on demand. Moreover, the National Development and Reform Commission imposes price control on the products. The Company adjusts the product price in response to the change in price risk over time.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) ***Financial risk management objectives and policies*** (Continued)

Credit risk

As at 31 December 2008 and 2007, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of trade and other receivables included in the balance sheet.

The Company has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Company performs periodic credit evaluation of its customers. The Company's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the accounts. In this regard, the Directors of the Company consider that the Company's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Company does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

Liquidity risk

The Company's liquidity risk management includes diversifying the funding sources. Internally generated cash flow and funds raising from bank loans during the year are the general source of funds to finance the operation of the Company. The Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) ***Financial risk management objectives and policies*** (Continued)

Liquidity risk (Continued)

The following table details the Company's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	Within 1 year	Over 1 year	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2008					
Non-derivative financial liabilities					
Trade and bills payables	–	**65,854**	–	**65,854**	**65,854**
Other payables and accruals	–	**87,648**	–	**87,648**	**87,648**
Deposits received	–	**8,194**	–	**8,194**	**8,194**
		161,696	–	**161,696**	**161,696**
As at 31 December 2007					
Non-derivative financial liabilities					
Trade and bills payables	–	32,175	–	32,175	32,175
Other payables and accruals	–	47,621	–	47,621	47,621
Deposits received	–	7,463	–	7,463	7,463
Short-term bank loans	6.38	30,500	–	30,500	30,500
		117,759	–	117,759	117,759

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) ***Financial risk management objectives and policies*** (Continued)

Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

(c) ***Capital risk management***

The Company's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company consists of debt (which includes bank borrowings), and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

Gearing ratio

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risk associated with each class of capital. During the year ended 31 December 2008, the Company's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated base on total debt and total assets.

The gearing ratio as at 31 December 2008 and 2007 are as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Total debt (Note)	**–**	30,500
Total assets	**681,722**	470,569
Gearing ratio	**–**	6.48%

Note: Total debt comprises short-term bank loans as detailed in Note 28.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

6. TURNOVER AND OTHER REVENUE

The principal activities of the Company are the manufacturing and sales of pharmaceutical products. No business or geographical segment analysis is presented as all operations, assets and liabilities of the Company during the year are related to the manufacturing and sales of pharmaceutical products, and all assets and customers are located in the PRC.

Turnover and other revenue recognised are as follows:

	2008	2007
	RMB'000	RMB'000
Turnover		
Sales of manufactured goods	**667,792**	509,092
Other revenue		
Interest income	**842**	1,392
Sundry income	**1,771**	1,931
	2,613	3,323
Total revenue	**670,405**	512,415

7. FINANCE COSTS

	2008	2007
	RMB'000	RMB'000
Bank loans wholly repayable within five years	**1,250**	4,554

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

8. PROFIT FROM OPERATIONS

	2008 RMB'000	2007 RMB'000
Operating profit of the Company was determined after charging/(crediting) the following:		
Raw materials and consumables used	**346,892**	240,980
Changes in inventories of finished goods and work-in-progress	**(30,837)**	(7,597)
Depreciation of property, plant and equipment (Note 18)	**13,030**	9,360
Loss on disposal of property, plant and equipment	**283**	15
Amortisation of prepaid lease payments (Note 20)	**273**	118
Amortisation of purchased technical know-how (included in cost of sales) (Note 16)	**935**	1,094
Write down of obsolete inventories (Note 22)	**879**	299
Impairment loss recognised in respect of prepayments to acquire technical know-how (Note 17)	**170**	–
Impairment loss recognised in respect of trade receivables (Note 23)	**535**	251
Impairment loss recognised in respect of other receivables (Note 24)	**433**	354
Employees benefit expenses (excluding Directors' and supervisors' remuneration (Note 13)) (Note 11)	**55,228**	42,010
Research and development costs	**3,527**	3,381
Advertising costs	**2,637**	3,725
Auditors' remuneration	**480**	480
and after crediting:		
Other income:		
Government subsidy	**177**	–
Penalty income	**2,103**	–
Reversal of obsolete inventories written down (Note 22)	**354**	626
Reversal of impairment loss recognised in respect of trade receivables (Note 23)	**215**	1,187
Reversal of impairment loss recognised in respect of other receivables (Note 24)	**45**	555
	2,894	2,368

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

9. TAXATION

(i) No provision for Hong Kong profits tax has been made as the Company did not carry on any business in Hong Kong during the year (2007: Nil).

(ii) The Company is subjected to the PRC enterprise income tax at a rate of 25% (2007: 33%). On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulation of the New Law. The New Law and Implementation Regulation changed the tax rate of the PRC enterprises to 25% from 1 January 2008 onwards.

(iii) The PRC value-added tax

The Company is subjected to the PRC value-added tax ("VAT") at 17% (2007: 17%) of revenue from sale of goods in the PRC. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

(iv) The amount of taxation charged to the income statement represents:

	2008 RMB'000	2007 RMB'000
Current taxation – Enterprise income tax	61,495	60,392
Deferred taxation (Note 21)	1,003	624
	62,498	61,016

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

	2008 RMB'000	2007 RMB'000
Profit before taxation	245,653	182,959
Calculated at a taxation rate of 25% (2007: 33%)	61,411	60,376
Income not subject to tax	(389)	(308)
Expenses not deductible for taxation purpose	925	948
Tax effect of share of profit of associate	(99)	–
Decrease in opening deferred tax asset resulting from a decrease in applicable tax rate	650	–
Taxation charge for the year	62,498	61,016

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

10. DIVIDENDS

A dividend in respect of 2008 of RMB0.02 per share, amounting to a total dividend of RMB12,192,000 (2007: RMB12,192,000) is to be proposed at the annual general meeting of the Company on 28 April 2009. These financial statements do not reflect this dividend payable.

	2008 RMB'000	2007 RMB'000
Proposed final dividend of RMB0.02 (2007: RMB0.02) per ordinary share	12,192	12,192

11. EMPLOYEE BENEFIT EXPENSES

	2008 RMB'000	2007 RMB'000
Salaries and wages	32,873	23,371
Sales commission	16,625	11,506
Pension costs – defined contribution plans	5,730	3,686
Other staff benefits	–	3,447
	55,228	42,010

12. PENSION AND RETIREMENT BENEFIT COSTS

The Company has provided for pension and retirement benefit costs to all qualified employees in the PRC in accordance with the regulations set by the PRC local government which is calculated based on 30% on the employees' salary or the monthly average salaries set out by the PRC local government.

Commencing in 2003, the Company has participated in a Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong for all qualified Hong Kong employees, which is a defined contribution scheme managed by independent trustees. Monthly contributions are made to the MPF Schemes based on 5% of the Hong Kong employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. Both the Company's and the employees' contributions are subject to a cap of approximately RMB879 (equivalent to HK$1,000) per month and thereafter contributions are voluntary.

During the year ended 31 December 2008, the Company has contributed approximately RMB10,555 (2007: RMB11,640) to the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) The aggregate amounts of emoluments paid and payable to the Directors and supervisors of the Company are as follows:

	2008 RMB'000	2007 RMB'000
Basic salaries and allowances	**963**	711
Retirement benefit costs	**165**	91
	1,128	802

Individual emoluments paid and payable to the Directors and supervisors for the year are as follows:

	2008 RMB'000	2007 RMB'000
Executive Directors		
Liu Baoqi	**456**	130
Li Minghua	**127**	127
Liu Zhenhai	**106**	106
Han Fengsheng	**67**	67
Non-executive Directors		
Zhou Wuxian	**24**	24
Yin Chuangui	**24**	24
Liu Yuxin	**24**	24
Independent non-executive Directors		
Foo Tin Chung, Victor	**120**	120
Fu Hongzheng	**24**	24
Li Hongjian	**24**	24
Supervisors		
Sun Song	**60**	60
Zhu Enqiang	**24**	24
Li Yonggang (Resigned on 30 November 2007)	**–**	22
Gao Xiaoling	**24**	24
Guan Yonghua (Appointed on 30 November 2007)	**24**	2
	1,128	802

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(i) The number of Directors and supervisors whose emoluments fell within the following bands is as follows:

	Number of individuals	
	2008	2007
Nil – RMB879,577 (equivalent to Nil – HK$1,000,000)	**14**	15

None of the Directors have waived any emoluments during the year.

(ii) The five individuals whose emoluments were the highest in the Company for the year include four (2007: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable (excluding amounts paid or payable by way of commissions on sales generated by the individual) to the remaining one (2007: one) non-director, highest paid individual during the year are as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries and allowances	**660**	610
Retirement benefit costs	**12**	12
	672	622

The number of non-director, highest paid individuals whose emoluments fell within the following bands is as follows:

	Number of individuals	
	2008	2007
Nil – RMB879,577 (equivalent to Nil – HK$1,000,000)	**1**	1

(iii) During the year, no emoluments have been paid to the Directors of the Company or the five highest individuals as an inducement to join or as compensation for loss of office (2007: Nil).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

14. EARNINGS PER SHARE

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

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	183,155	121,943
Weighted average number of ordinary shares in issue ('000)	609,600	609,600
Basic and diluted earnings per share (RMB)	0.300	0.200

15. INTEREST IN ASSOCIATE

	2008 RMB'000	2007 RMB'000
Cost of investment in associate, unlisted in PRC	19,620	–
Share of post-acquisition profit, net of dividends received (Note)	3,107	–
	22,727	–

On 7 May 2008, the Company entered into an agreement with Qilu Medical Investment Management Limited (齊魯醫療投資管理有限公司) ("Qilu Medical") to make a capital contribution of RMB19,620,000 to acquire 20% of equity interest in Qilu Medical. The acquisition of 20% of equity interest was completed on 17 July 2008 pursuant to an ordinary resolution passed in the extraordinary general meeting.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

15. INTEREST IN ASSOCIATE (Continued)

At 31 December 2008, the Company had interests in the following associate:

Name of the entity	Form of business structure	Place of incorporation and principal operation	Proportion of registered capital held by the Company	Proportion of voting power held	Principal activities
Qilu Medical Investment Management Limited	Incorporated	PRC	20%	20%	Management and consultation of medical related business

The summarised financial information in respect of the Company's associate is set out below:

	2008 RMB'000
Total assets	190,623
Total liabilities	(76,992)
Net assets	113,631
Company's share of net assets of associate	22,727
Revenue	5,203
Profit for the year	1,974
Company's share of profit of associate for the year	395

Note:

The amount includes (i) the Company's share of profit of associate of approximately RMB395,000 for the period ended 31 December 2008; and (ii) excess of the Company's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment in associate of approximately RMB2,712,000. The Company has reassessed the fair value of the associate's identifiable net assets and considered the values of net assets are measured reliably.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

16. PURCHASED TECHNICAL KNOW-HOW

	RMB'000
Cost:	
At 1 January 2007, at 31 December 2007 and at 1 January 2008	15,300
Additions	2,000
At 31 December 2008	17,300
Accumulated amortisation and impairment:	
At 1 January 2007	12,581
Charge for the year	1,094
At 31 December 2007 and at 1 January 2008	13,675
Charge for the year	935
At 31 December 2008	14,610
Net book value:	
At 31 December 2008	2,690
At 31 December 2007	1,625

17. PREPAYMENTS TO ACQUIRE TECHNICAL KNOW-HOW

As at 31 December 2008 and 2007, the amounts are prepayments to third parties to acquire technical know-how. During the year ended 31 December 2008, amount of approximately RMB170,000 was impaired. The Directors have considered that the amount of the prepayment to acquire technical know-how was not recoverable as the research and development process was not successful and would not bring any future economic benefit to the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2007	62,470	57,971	6,541	5,871	132,853
Additions	1,290	8,100	1,849	747	11,986
Disposals	–	–	(509)	–	(509)
At 31 December 2007 and at 1 January 2008	63,760	66,071	7,881	6,618	144,330
Additions	3,622	4,459	1,657	1,215	10,953
Disposals	(499)	(2,159)	(732)	(3)	(3,393)
Transfer from construction-in-progress (Note 19)	96,308	45,687	–	–	141,995
At 31 December 2008	163,191	114,058	8,806	7,830	293,885
Accumulated depreciation and impairment:					
At 1 January 2007	2,161	13,670	2,985	3,321	22,137
Charge for the year	1,548	5,832	1,044	936	9,360
Written back on disposals	–	–	(349)	–	(349)
At 31 December 2007 and at 1 January 2008	3,709	19,502	3,680	4,257	31,148
Charge for the year	2,553	8,309	1,365	803	13,030
Written back on disposals	(71)	(716)	(402)	(2)	(1,191)
At 31 December 2008	6,191	27,095	4,643	5,058	42,987
Net book value:					
At 31 December 2008	157,000	86,963	4,163	2,772	250,898
At 31 December 2007	60,051	46,569	4,201	2,361	113,182

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2008, none of the plant and machinery (2007: RMB18,098,000) is pledged as collateral to secure bank loans.

As at 31 December 2008, all buildings of the Company are located in the PRC.

Depreciation expense of approximately RMB10,079,000 (2007: RMB6,933,000) have been expensed in cost of sales and approximately RMB2,951,000 (2007: RMB2,427,000) have been included in administrative expenses for the year.

19. CONSTRUCTION-IN-PROGRESS

	RMB'000
At 1 January 2007	–
Additions	82,429
At 31 December 2007 and at 1 January 2008	82,429
Additions	59,566
Transfer to property, plant and equipment (Note 18)	(141,995)
At 31 December 2008	–

Analysis of construction-in-progress:

	2008 RMB'000	2007 RMB'000
Construction cost of buildings	–	54,737
Cost of plant and machinery	–	27,692
	–	82,429

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

20. PREPAID LEASE PAYMENTS

Prepaid lease payments represent 50-year land use rights in the PRC expiring from November 2050 to July 2053. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2007	1,812
Additions	10,027
Amortisation of prepaid lease payments	(118)
At 31 December 2007 and at 1 January 2008	11,721
Amortisation of prepaid lease payments	(273)
At 31 December 2008	11,448

Analysed for reporting purposes as:

	2008 RMB'000	2007 RMB'000
Current assets (included in other receivables, deposits and prepayments)	273	273
Non-current assets	11,175	11,448
	11,448	11,721

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

21. DEFERRED TAX ASSETS

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2007: 33%).

The movements in the deferred tax assets are as follows:

	2008 RMB'000	2007 RMB'000
Beginning of the year	2,685	3,309
Deferred taxation charged to income statement (Note 9)	(1,003)	(624)
End of the year	1,682	2,685

	Provisions RMB'000	Amortisation charge on purchased technical know-how RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	1,412	1,491	406	3,309
Charged to income statement	(512)	(112)	–	(624)
At 31 December 2007 and at 1 January 2008	900	1,379	406	2,685
Effect of change in tax rate	(218)	(334)	(98)	(650)
Charged to income statement	74	(119)	(308)	(353)
At 31 December 2008	756	926	–	1,682

All deferred tax assets are to be recovered after more than 12 months.

There is no unprovided deferred taxation during the year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

22. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	51,628	19,769
Work-in-progress	40,500	26,484
Finished goods	40,090	23,268
	132,218	69,521
Less: Write down of obsolete inventories	(940)	(415)
	131,278	69,106

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB316,055,000 (2007: RMB233,384,000).

Movements in the write down of obsolete inventories are as follows:

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	415	742
Write down of obsolete inventories during the year	879	299
Reversal of obsolete inventories written down	(354)	(626)
Balance at end of the year	940	415

The reversal of obsolete inventories written down arose from sales of obsolete inventories recognised during the year.

The Directors of the Company have assessed the net realisable values and conditions of the Company's inventories as at 31 December 2008 and have considered a write down of obsolete inventories of approximately RMB940,000 be made in respect of the net realisable value of the inventories.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

23. TRADE AND BILLS RECEIVABLES

Details of the aging analysis are as follows:

	2008 RMB'000	2007 RMB'000
1 to 90 days	**33,925**	38,443
91 to 180 days	**24,271**	11,761
181 to 365 days	**10,006**	3,695
Over 365 days	**1,084**	784
	69,286	54,683
Less: Provision for impairment loss recognised in respect of trade receivables	**(1,084)**	(784)
	68,202	53,899

Customers are generally granted with credit term of 180 days. Trade and bills receivables as at 31 December 2008 are denominated in RMB.

As at 31 December 2008, amount of approximately RMB7,034,000 is receivable from a related company (Note 35). The amount is unsecured, interest-free and receivable within 180 days.

As at 31 December 2007, amounts of approximately RMB1,067,000 and RMB1,178,000 are receivables from a shareholder of the Company and a related company respectively (Note 35). The amounts are unsecured, interest-free and receivable within 180 days.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

23. TRADE AND BILLS RECEIVABLES (Continued)

(a) Included in the Company's trade and bills receivables balance are debtors with a carrying amount of approximately RMB10,006,000 (2007: RMB3,695,000) which are past due at the reporting date for which the Company has not provided for impairment loss. The Company does not hold any collateral over these balances.

Details of the aging analysis of trade and bills receivables which are past due but not impaired are as follows:

	2008 RMB'000	2007 RMB'000
181 to 365 days	10,006	3,695
Over 365 days	–	–
	10,006	3,695

(b) Movements in the provision for impairment loss recognised in respect of trade receivables are as follows:

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	784	1,728
Bad debt written off	(20)	(8)
Impairment loss recognised during the year	535	251
Reversal of impairment loss recognised in respect of trade receivables	(215)	(1,187)
Balance at end of the year	1,084	784

In determining the recoverability of trade receivables, the Company considers that any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the Directors have considered provision for impairment is values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the provision for impairment loss recognised in respect of trade receivables.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008 RMB'000	2007 RMB'000
Other receivables and deposits	4,912	4,122
Prepayments (Note)	33,600	5,092
	38,512	9,214
Less: Provision for impairment loss recognised in respect of other receivables	(1,000)	(612)
	37,512	8,602

Note:

Prepayments mainly comprised of prepayment of value-added tax, acquisition of raw materials, packing materials and consumables, and acquisition of prepaid lease payments of approximately RMB15,664,000, RMB8,988,000 and RMB5,000,000 respectively.

Movements in the provision for impairment loss recognised in respect of other receivables are as follows:

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	612	813
Impairment loss recognised during the year	433	354
Reversal of impairment loss recognised in respect of other receivables	(45)	(555)
Balance at end of the year	1,000	612

The reversal of impairment loss recognised due to the recovery of other receivables during the year.

In determining the recoverability of other receivables, the Company considers any changes in the credit quality of the other receivables. The Directors have considered provision for impairment is values be made in respect of other receivables to their recoverable values.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

25. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

As at 31 December 2008, bank deposits of RMB14,840,000 (2007: Nil) are pledged as collateral for bills payables.

The annual effective interest rate on pledged bank deposits is 3.78% (2007: 0.72%).

Cash and cash equivalents of the Company are denominated in RMB and HKD and bank deposits are placed with banks in the PRC and in Hong Kong. The remittance of funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

26. TRADE AND BILLS PAYABLES

Details of the aging analysis are as follows:

	2008 RMB'000	2007 RMB'000
1 to 90 days	22,160	25,082
91 to 180 days	31,662	3,295
181 to 365 days	7,469	884
Over 365 days	4,563	2,914
	65,854	32,175

Trade and bills payables as at 31 December 2008 are denominated in RMB.

27. OTHER PAYABLES AND ACCRUALS

	2008 RMB'000	2007 RMB'000
Accruals	9,473	9,410
Other payables	40,256	27,767
Received in advance (Note)	37,919	10,444
	87,648	47,621

Note: As at 31 December 2008, amounts of approximately RMB21,629,000 and RMB110,000 are received in advance from a shareholder and a related company respectively (Note 35).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

28. SHORT-TERM BANK LOANS

	2008	2007
	RMB'000	RMB'000
Short-term bank loans		
– secured	–	30,500

Short-term bank loans are denominated in RMB and bear interest at approximately 6.12% to 7.34% per annum (2007: 6.12% to 7.34%). Please refer to note 32 for the movement of the short term bank loans.

29. DEFERRED INCOME

During the years ended 31 December 2002 and 2003, the Company received government subsidies in cash of RMB20,380,000 pursuant to an approval obtained from the local government authority. The grants were to enable the Company to construct a new manufacturing plant to produce Chinese medicines. As at 31 December 2008, the Company has not commenced the construction of the new manufacturing plant.

30. SHARE CAPITAL

		Nominal value		
	Number of shares	**Domestic shares**	**H shares**	**Total**
	'000	RMB'000	RMB'000	RMB'000
Registered, issued and fully paid:				
At 31 December 2007 (nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960
At 31 December 2008 (nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

31. RESERVES

The movements of reserves of the Company are as follows:

	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	31,139	18,109	6,033	95,260	150,541
Profit attributable to equity holders of the Company	–	–	–	121,943	121,943
Transfer from retained earnings to statutory surplus reserve fund	–	12,194	–	(12,194)	–
Dividend paid	–	–	–	(12,192)	(12,192)
At 31 December 2007 and at 1 January 2008	31,139	30,303	6,033	192,817	260,292
Profit attributable to equity holders of the Company	–	–	–	183,155	183,155
Transfer from retained earnings to statutory surplus reserve fund	–	177	–	(177)	–
Dividend paid	–	–	–	(12,192)	(12,192)
At 31 December 2008	**31,139**	**30,480**	**6,033**	**363,603**	**431,255**
Representing:					
Proposed 2008 final dividends				12,192	
Others				351,411	
Retained earnings as at 31 December 2008				363,603	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

31. RESERVES (Continued)

Notes:

(i) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory surplus reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory surplus reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution passed at a shareholders' general meeting, the Company may transform its statutory surplus reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(ii) Pursuant to the PRC regulations and the Company's Articles of Association, the contribution to statutory public welfare fund by the Company is voluntary. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation. The Directors consider that no provision to be made for the years ended 31 December 2008 and 2007.

32. NOTE TO THE CASH FLOW STATEMENT

Analysis of changes in financing:

	Bank loans
	RMB'000
At 1 January 2007	78,700
Additional bank loans	30,500
Repayment of bank loans	(78,700)
At 31 December 2007 and at 1 January 2008	30,500
Additional bank loans	60,000
Repayment of bank loans	(90,500)
At 31 December 2008	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

33. BANKING FACILITIES

The Company had aggregate banking facilities of RMB14,840,000 (2007: RMB30,500,000) which were fully utilised as at 31 December 2008.

As at 31 December 2008, RMB14,840,000 (2007: RMB30,500,000) of the banking facilities were secured by:

(i) none of the Company's property, plant and equipment was pledged (2007: RMB18,098,000); and

(ii) pledged bank deposits of RMB14,840,000 (2007: Nil).

34. COMMITMENTS

The Company had the following significant capital commitments:

	2008 RMB'000	2007 RMB'000
Contracted but not provided for:		
– Purchase of technical know-how	**3,900**	4,800
– Purchase of prepaid lease payment	**3,300**	–
– Property, plant and machinery	**–**	28,426

35. RELATED PARTY TRANSACTIONS

Key management compensation for the year ended 31 December 2008 was disclosed in Note 13(i).

Apart from those as disclosed under Notes 23 and 27 and elsewhere in the financial statements, the Company had the following material transactions with related parties during the year:

	2008 RMB'000	2007 RMB'000
Sales of finished goods to Linyi Luoxin Pharmacy Company Limited ("Linyi Luoxin") (Note (i))	**56,890**	918
Sales of finished goods to Linyi City People's Hospital ("Linyi People Hospital") (Note (ii))	**13,610**	1,007
Sales of finished goods to Pingyi County People's Hospital ("Pingyi People Hospital") (Note (iii))	**1,319**	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

35. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(i) Linyi Luoxin is the shareholder and promoter of the Company. Mr. Liu Baoqi is the Director for both Linyi Luoxin and the Company. At 31 December 2008, amount of approximately RMB21,629,000 received in advance from Linyi Luoxin is included in other payables and accruals (Note 27). At 31 December 2007, amount of approximately RMB1,067,000 due from Linyi Luoxin is included in trade and bills receivables. The terms of the outstanding balance is set out in Note 23.

(ii) Linyi People Hospital is the ex-shareholder and promoter of the Company. Mr. Yin Chuangui, a non-executive Director of the Company, is also the Director of Linyi People Hospital during the year ended 31 December 2008. At 31 December 2008, amount of approximately RMB7,034,000 (2007: RMB1,178,000) due from Linyi People Hospital is included in trade and bills receivables. The terms of the outstanding balance is set out in Note 23.

(iii) Pingyi People Hospital is the ex-shareholder and promoter of the Company. Mr. Liu Yuxin, a non-executive Director of the Company, is also the Director of Pingyi People Hospital during the year ended 31 December 2008. At 31 December 2008, amount of approximately RMB110,000 received in advance from Pingyi People Hospital is included in other payables and accruals (Note 27).

The above transactions constitute connected transactions under GEM Listing Rules. Please also refer to "Connected Transactions and Continuing Connected Transactions" under "Report of the Directors".

36. CONTINGENT LIABILITIES

The Company has no material contingent liabilities as at 31 December 2008.

37. SUBSEQUENT EVENTS

No significant subsequent event took place subsequent to 31 December 2008.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 5 March 2009.

FIVE YEARS FINANCIAL SUMMARY

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	**667,792**	509,092	317,868	249,689	169,000
Cost of sales	**(351,196)**	(260,628)	(175,905)	(144,289)	(71,676)
Gross profit	**316,596**	248,464	141,963	105,400	97,324
Other revenue	**2,613**	3,323	2,565	1,548	2,007
Other income	**2,894**	2,368	2,961	–	–
Selling and distribution expenses	**(48,869)**	(33,585)	(23,637)	(21,879)	(27,091)
General and administrative expenses	**(29,438)**	(33,057)	(24,955)	(21,511)	(20,003)
Share of profit of associate	**3,107**	–	–	–	–
Finance costs	**(1,250)**	(4,554)	(7,679)	(7,142)	(5,626)
Profit before taxation	**245,653**	182,959	91,218	56,416	46,611
Taxation	**(62,498)**	(61,016)	(31,049)	(19,486)	(18,378)
Profit attributable to equity holders of the Company	**183,155**	121,943	60,169	36,930	28,233
Dividends	**12,192**	12,192	12,192	12,192	48,182
Earnings per share attributable to equity holders of the Company (RMB)	**0.300**	0.200	0.099	0.079	0.061

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets & Liabilities					
Total assets	**681,722**	470,569	398,923	353,210	283,458
Total liabilities	**(189,507)**	(149,317)	(187,422)	(189,686)	(189,623)
Equity attributable to equity holders of the Company	**492,215**	321,252	211,501	163,524	93,835