東北虎藥業股份有限公司
NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code : 8197)

Annual Report 2008

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This report, for which the directors ("Directors") of Northeast Tiger Pharmaceutical 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 ("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 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.

Content

Corporate Information

EXECUTIVE DIRECTORS
Xu Zhe *(Chairman)*
Du Li Hua *(Deputy Chairman)*
Xu Dao Tian
(Deputy Chairman & General Manager)
Leng Zhan Ren

INDEPENDENT NON-EXECUTIVE DIRECTORS
Lam Kai Yeung
Niu Shu Min
Zhao Zhen Xing

SUPERVISORS
Zhang Ya Bin
Chen Lin Bo
Yin Hong

COMPANY SECRETARY
Ng Chen Huei

AUDIT COMMITTEE
Lam Kai Yeung
Niu Shu Min
Zhao Zhen Xing

COMPLIANCE OFFICER
Du Li Hua

AUTHORIZED REPRESENTATIVES
Xu Dao Tian
Leng Zhan Ren

GEM STOCK CODE
8197

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE
Xu Dao Tian
Leng Zhan Ren

AUDITORS
NCN CPA Limited

LEGAL ADVISORS
Li & Partners

PRINCIPAL BANKER
China Construction Bank
Jilin Railway Branch

HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE
No.3, No. 2 Road,
Jilin Hi-Tech Development Zone
Jilin City
Jilin Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 2201-03, 22/F, World Wide House
19 Des Voeux Road Central
Central, Hong Kong

Chairman's Statement

On behalf of Board of Directors (the "Board") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), I hereby present to our shareholders the annual report of the Company for the year ended 31 December 2008.

The Company was established in Jilin High-Technology Development Zone, the People's Republic of China ("PRC"). It is principally engaged in the manufacture and sale of Chinese medicines under the brand name of "Northeast Tiger" in the PRC as well as conducting pharmaceutical research and development. The Company owns several production lines which were granted GMP and GSP certifications by the State Food And Drug Administration, namely large volume injection, small volume injection, granules, tablets, capsules, liquid pills and raw material (Yong Chong Cao Jun Powder) etc. Currently, the Company's main products include Lu Lu Tong Injection, Ling Yang Jiao Injection, Yong Chong cao Jun Powder Capsule, Shi Long Blood Clean Granules, Ling Yang Jiao Drop and Lu Lu Tong Xie Sha Tong Infusion Fluid etc. Lu Lu Tong Injection mainly used in treating sequela of cardiovascular and cerebrovasular diseases, central retinal vein occlusion and anterior retinal hemorrhage; Shi Long Blood Clean Granules (new Chinese medicine under State category 3) mainly used in treating slight and moderate hemorrhage stroke, disruption of the brain by the heat of the liver, acute increase of liver warmth, disruption of the brain by the bodily hot wind; Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule (new Chinese medicine under State category 1) are proved to be nutrition supplement to kidney and lungs, can relieve cough and reduce phlegm and mainly used for prolonged pneumonary weakness and renal failure; and Antelope's Horn Drop used for treating cold and influenza.

During the Period under review, the Company faced negative factors such as price rises of energy, appreciation of the RMB, reduction in the rate of export tax rebates, growing pressure for environmental protection. However, the PRC pharmaceutical industry still maintained a steady development trend in spite of the financial crisis that swept across the world. This is because of the citizen's strong demand for medicine, and also because China was in its ascending course towards a comprehensive health care system, and the State finance provided strong support to the expansion of pharmaceutical market.

During the Period, the PRC pharmaceutical industry demonstrated five main characteristics: (1) the medical reforms drove the market demand, extending the room for market development; (2) the market potential in rural areas was realised and the key to develop the rural market was to establish a medicine delivery system; (3) the competition within the markets of generic drugs and general medicine grew fiercer; (4) the task to cut costs and improve efficiency remained prominent; and (5) the policies boosted the structural adjustment of the pharmaceutical industry, highlighting the features of "integration, promotion and competition".

Two out of the five points mentioned above were especially worth noticing, first of which was that the prosperity in rural markets and retail markets was gaining attention from pharmaceutical enterprises. Public figures showed that in 2008, the coverage of PRC New Rural Cooperative Medical Systerm ("NRCMS") reached a population of 814,000,000 with a contribution standard of not lower than RMB100 per person. This included 420,000,000 people in cities and towns with contribution standards of RMB180 and RMB1,400~1,500 per person respectively, which brought at least RMB150 billion of direct capital growth to the medical market. The national financial expenditure will further incline towards rural areas, in particular, after the third Plenary Session of the 17th Communist Party of China Central Committee, and the huge potential of medical consumption from the rural market will surface gradually. In addition, the new medical reforms will, to a large extent, push the progress of the medical industry, and boost the pharmaceutical market demand for nearly RMB200 billion. These capital put forward medical demand and it is foreseeable that the PRC pharmaceutical market will continue to grow in future. The second point was that, as the pharmaceutical industry became more and more concentrated, enterprises with unique product resources and marketing advantages gained competitiveness, and the speed of weak players being eliminated from the industry accelerated, and mergers and acquisitions will be the way for the expansion of enterprises.

The pharmaceutical market was still in transition during the Period with a lot of opportunities and challenges. The Company achieved its target of 2008 by: carefully analysing the current situation, formulating a reasonable price policy, developing new markets and expanding sales; adhering to innovation and energy-saving; paying close attention to project quality and construction progress; and improving cost awareness.

Looking foreward, the healthcare reform in the People's Republic of China (the "PRC") continues and the PRC healthcare industry continues to grow. The economic conditions have recently been deteriorating significantly in many countries and regions, including the PRC, and may remain depressed for prolonged periods.The prolonged turmoil noted in the financial market which has adversely affected, and is expected to continue to affect, the real economy.

In 2009, the adverse impact on the Company profits will continue and the pressure on fund and energy will increase. Therefore, the Company will firmly implement the policies in four areas, that is, restructuring, domestic and international market development, strengthening internal management, and developing employees' potential. The Company will:

1. Continue production and marketing convergence: carry out exemplary financing, research and policy implementation, ensure the supply of raw materials and power to enable the continued production of key products, adjust the product structure to reflect changes in the market and in costs, and ensure the production of effective and high-selling products.

2. Continue to intensify efforts to open up the market: rely on our own advantages, use pricing leverage, carefully analyse the market, seize opportunities, expand product sales, particularly preparation product sales, continue to implement a production and sale business strategy, control operational risks and ensure fund security.

3. Increase technology research activities and strengthening energy saving: implement measures to improve production technology and product quality by implementing the measure "one product, one policy", reduce consumption and absorb the impact of increased prices of raw materials and power, rely on scientific and technological innovation, increase energy saving measures and pay close attention to environmental protection.

Moreover, it is worth noting that the government of the PRC has recently announced an array of policies, including a loosening of credit restrictions and stimulation of domestic consumption to drive up the GDP growth. Although these new policies have not yet had a material impact on our operations, it may help to release certain negative impact on our operations in the future. In the long run, the Company is optimistic that the business opportunities in the pharmaceutical and healthcare industry in the PRC will remain buoyant given the increasing income and health awareness of the mainland population.

Looking ahead, the Board has confidence in the future development of the Company and so am I, we believe that change brings challenge and opportunity as well. Together with all our fellow staff, I am enthusiastically looking forward to a new round of future growth. Together, let's work ever harder to contribute to the Company's long-term success.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
19 March 2009

During the year under review, the Company reported continuous steady growth across its core business segments, with steady growth in prescription drugs, over-the-counter ("OTC") drugs and healthcare products. It was encouraging to see that the Company successfully achieved a balanced development in terms of business growth and risk control.

For the year ended 31 December 2008, turnover of the Company increased by approximately 29.80% to approximately RMB64,522,000 and overall gross profit margin increased by approximately 8.83% from approximately 24.98% to approximately 33.81%. This increase was mainly attribute to that the improved sales of high gross profit margin health products like Xin Nao Kang Capsule, Wei Li Kang Pill, Dan San Shu Xin Capsule and Yong Chong Cao Jun Powder Capsule. Profit attributable to shareholders amounted to RMB5,667,000 (2007: 4,087,000), representing a increase of 38.66% as compared with the same period of last year.

As compared with last year, Distribution and selling expenses on sales decreased slightly 0.86% from 7.75% to 6.89%, mainly due to the downturn of fuel cost. Despite the increased labour cost, the General, administrative and operating expenses decreased RMB4,132,000 from RMB12,616,000 to RMB8,484,000. The main reason is that the amount of Depreciation of property, plant and equipment dropped RMB2,647,000 from RMB5,022,000 to RMB2,375,000 due to disposal of old factory building last year. During the year under review, Provision for impairment of trade receivables amounted to RMB2,532,000 (2007: nil), and impairment loss on buildings amounted to RMB1,292,000 (2007: RMB4,397,000), however, the other revenue for the year amounted to only RMB601,000 (2007: RMB9,229,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December, 2008, the Company had total assets of approximately RMB110,658,000 which were financed by current liabilities of approximately RMB25,868,000, shareholders' equity of approximately RMB84,790,000.

The Company generally services its debts primarily through cash generated from its operations. As at 31 December, 2008, the Company had cash and bank balances of approximately RMB11,610,000. Taking into consideration the Company's current financial resources, the Directors believe that the Company shall have adequate fund for its continual operation and development, but would not exclude the possibility of raising working capitals once required by way of additional bank loans or equity financing in future.

As at 31 December, 2008, the liquidity ratio, represented by a ratio between current assets over current liabilities, was 2.28:1. The gearing ratio of the Company, defined as a ratio between total debts and shareholders' equity, was 30.5%, is quite healthy.

TREASURY POLICIES

The Company adopts a conservative approach towards treasury policies. In selling its products, the Company may require new customers to make advance payment of approximately 45% of their purchases. The average credit period grants to customers of the Company is 90 days. In certain circumstance, the credit period may be extended to appropriate level after relevant due diligence investigation. In determining the length of the credit term extended to any specific customer, the Company will consider the reputation of the customer, the length of business relationship with the customer and its past payment record. The Company's management also puts endeavors on credit control on its customers by closely monitoring the outstanding balance owed by them. The actions taken by the Company include conducting monthly reviews on accounts receivable, following up each debtor overdue more than 90 days and enforcing the collection of outstanding balance of accounts receivable. The Company strives to reduce exposure to credit risk by performing ongoing credit evaluations of financial condition of its customers.

To manage liquidity risk, management closely monitors the liquidity position to ensure that the liquidity restructure of the Company can meet its funding requirements.

EMPLOYEE INFORMATION

Remuneration of the Company's employees was determined by reference to the performance, qualification and experience of the relevant staff. Based on operating result, a discretionary incentive bonus based on individual performance maybe distributes to reward their contributions to the Company. The management is of the opinion that employees are the most treasured assets of the Company. Accordingly, the Company has actively created a corporate environment to nurture them to their full potentials. Payroll costs of the Company remained at a similar level as before during the year. Other employee benefits include retirement benefits, medical insurance and housing fund contributions, remained at appropriate levels. Various training and development courses were also offered to enable employees to upgrade their skills.

DIRECTORS

Executive Directors

Xu Zhe, aged 39, is the chairman of the Company. Mr. Xu is responsible for the formulation and implementation of overall policy and strategy of the Company, as well as overseeing business development and sales and marketing activities of the Company. Mr. Xu was named twice as the "Excellent Sales Manager of the City of Jilin", "Excellent Citizen of the City of Jilin" and "Model Worker of the City of Jilin". He was a director of FE Holdings from 11 January 1999 to 10 April 2001. Mr. Xu also serves as a director of Hailaer City Yidaitianqiao Pharmaceutical Company Limited ("Hailaer") and Yakeshi Northeast Tiger Pharmaceutical Company Limited ("Yakeshi") respectively since 1998. Mr. Xu graduated from Jilin College of Fine Arts in the PRC. He went to the United States in 1996 to study business administration and he returned to the PRC in 1998 and founded NT Research. With the focus on the research and development of advanced and new technologies, Mr. Xu has developed the Company into a leading player in its field with substantial competitive edge. Mr. Xu is the son of Mr. Xu Dao Tian and Ms. Du Li Hua.

Du Li Hua, aged 58, is the deputy chairman of the Company. Ms. Du graduated from Yanbian University majoring in economics and has been engaged in the pharmaceutical business since 1989. Ms. Du was once recognised as an "Young/Mid-aged Expert with Outstanding Contribution", was granted "Special Sponsorship" by the State Council, awarded a "May 1 Labour Medal of the Country" by the National Trade Union, and recognised as the "Outstanding Business Manager of the Country". In addition, she was also recognised as the "Outstanding Woman Entrepreneur of the Country", "Model Worker of the Province of Jilin", "Outstanding Woman of Jilin", "Great Woman Red Flag Pioneer of the Province", "Outstanding Entrepreneur in the Pharmaceutical Industry under the Eighth Five-year Plan" and "Premier Model Worker of the City of Jilin". The State Council of the PRC has granted Ms. Du a special stipend based on her capacity as an expert in her field. Ms. Du has also been a director of FE Holdings since 1992 and a director of Hailaer and Yakeshi respectively since 1998. She spent most of her time in FE Holdings and does not take active managerial role in the Company. She normally attends directors' meetings and supervisors' meeting of the Company. Ms. Du is the wife of Mr. Xu Dao Tian and is the mother of Mr. Xu Zhe.

Xu Dao Tian, aged 61, is the deputy chairman and general manager of the Company. Mr. Xu is responsible for the Company's overall operational activities, production management and product research and development. Mr. Xu graduated from Jilin Teachers College majoring in Chemistry and is a senior economist. He successively won the titles of, among others, "Outstanding Sales Manager of the City of Jilin" and "Advanced Developer of the Production Systems for the City's Pharmaceutical Industry". He was also awarded first honour in the "Business Starter of the Year" contest in 1999 held by Jilin Municipal Chamber of Industry. Mr. Xu has substantial experience in production management and product development. He was a director of FE Holdings from 11 January 1999 to 10 April 2001. Mr. Xu has also been a supervisor of FE Water since October 1996, an executive director of You Lian since April 1999 and a director of Hailaer since April 1998. Mr. Xu is the husband of Ms. Du Li Hua and is the father of Mr. Xu Zhe.

Leng Zhan Ren, aged 45, is a Director of the Company. Mr. Leng is responsible for the overall financial planning of the Company. Mr. Leng has also served as a supervisor of Hailaer and Yakeshi respectively since 1998. He graduated from Jilin College of Finance and Trade, majoring in accounting, and is a qualified accountant in the PRC. Mr. Leng has written a financial software "Accounting and Financial Statement System" which has been recognised by the provincial authority in Jilin and was launched in the market as a commercial software in 1999. The software has been awarded a second-class award by the Electronic Industry Department and a first-class award by the provincial authority.

Independent non-executive Directors

Lam Kai Yeung, aged 39. Mr. Lam has been appointed as the independent non-executive Director, member of audit committee and member of remuneration committee of the Board with effect from 7 August 2008. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. He possesses accounting and auditing experience in excess of 18 years.

Niu Shu Min, aged 69, was appointed an independent non-executive director of the Company on 11 July 2001. After graduating from the chemistry faculty of Shenyang Medical Institute, she has worked as the deputy manager of Jilin Pharmaceutical Company, and the deputy director and thereafter director of the JDA until she retired in June 1999. She has over 4 years of experience in financing. Currently she is the vice president and general secretary of the Association of Pharmaceutical Quality Control of the PRC and a standing committee member of Jilin People's Political Consultative Conference.

Zhao Zhen Xing, aged 66, was appointed an independent non-executive director of the Company on 30 September 2004. He graduated from College of Jilin provincial Finance and banking. He became a registered Auditor of PRC in 1994, and in July 1997 he was recognized as a senior accountant of PRC. He was manager of internal audit department of Jilin Tansu Group, Jilin Tansu Company Limited during 1991 to 2001. He served as Supervisor of Jilin Tansu Group, Jilin Tansu Company Limited during 1997 to 2001.

SUPERVISORS

Zhang Ya Bin, aged 46, is the chairman of the supervisory committee of the Company. Mr. Zhang joined the Company on 28 June 2000. He does not take any active role in the Company. He graduated from Northeast Normal University majoring in political studies and is currently a director of FE Holdings, Hailaer and Yakeshi respectively. Mr. Zhang was the assistant to the chairman of FE Holdings and a deputy secretary of the communist party committee of that company.

Chen Lin Bo, aged 53, is a supervisor of the Company who joined the Company on 28 June 2000. He is responsible for infrastructure project of the Company. He graduated from Changchun Traditional Chinese Medical College, majoring in medical studies. He had been the deputy manager of NT Drugs for years. He was also in charge of the infrastructure project of NT Pharmaceutical.

Yin Hong, aged 39, is a supervisor of the Company who joined the Company on 28 June 2000. He graduated from Changchun College of Taxation Studies majoring in accounting and is an accountant. Ms. Yin has served as the deputy financial controller of FE Holdings since 1992.

SENIOR MANAGEMENT

Gao Yue Ying, aged 38, is the secretary of the board of directors of the Company and the supervisor of the general manager's office. Ms. Gao graduated from Jilin College of Finance and Trade and is an assistant accountant.

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee ("we") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2008 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Zhang Ya Bin
Chairman

Jilin, the PRC
19 March 2009

INTRODUCTION

Subject to the deviation as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedure to protect and maximize the interests of shareholders during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions 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. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2008.

BOARD OF DIRECTORS AND BOARD MEETING

The Board currently consists of 4 executive Directors and 3 independent non-executive Directors:

Executive Directors:
Mr. Xu Zhe *(Chairman)*
Mr. Xu Dao Tian *(Chief Executive Officer)*
Madam Du Li Hua
Mr. Leng Zhan Ren

Independent non-executive Directors:
Mr. Lam Kai Yeung
Miss Niu Shu Min
Mr Zhao Zhen Xing

The board of Directors is responsible for the Company's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 8 to 9 of this Annual Report. All Directors have given sufficient time and attention to the affairs of the Company. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Except that Mr. Xu Zhe, Xu Dao Tian and Madam Du Li Hua are member of a family, there is no relationship among the members of the board of Directors.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Lam Kai Yeung, Miss Niu Shu Min and Mr. Zhao Zhen Xing are the independent non-executive Directors. Mr. Lam Kai Yeung has been appointed on 7 August 2008 and Miss Niu Shu Min Li have been appointed for a term of three years commencing on 20 May 2005. Mr. Zhao Zhen Xing has been appointed for a term of three years commencing on 30 September 2004. All of them are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xu Zhe, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the code provision A.4.2, Mr. Xu Dao Tian, Madam Du Li Hua, Mr. Leng Zhan Ren, Mr. Lam Kai Yeung and Miss Niu Shu Min, having served their directorship for over three years will retire at the forthcoming annual general meeting of the company, and being eligible, will offer themselves for re-election.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive Director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive Directors to be independent.

During the year under review, Mr. Xu Zhe was the chairman and Mr. Xu Dao Tian was the chief executive officer.

The roles of the chairman and chief executive officer are segregated and are not exercised by the same individual during the year under review, the chairman's responsibility is to manage the Board while the chief executive officer's is to manage the business of the Company.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the meetings of the board of Directors are as follows:

Directors Attendance

Mr. Xu Zhe	5/5
Mr. Xu Dao Tian	5/5
Madam Du Li Hua	5/5
Mr. Leng Zhan Ren	5/5
Mr. Lam Kai Yeung	3/3
Ms. Niu Shu Min	5/5
Mr. Zhao Zhen Xing	5/5

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each board meeting.

REMUNERATION COMMITTEE

The remuneration committee was established in August 2005. The current chairman of the committee is Mr. Lam Kai Yeung, a non-executive Director, and other members are Miss Niu Shu Min and Mr. Zhao Zhen Xin, both of them are independent non-executive Directors, thus the all being independent non-executive Directors.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until August, 2005 that the Company established a remuneration committee as required under the code provision B.1.1.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held in December 2008. Details of the attendance of the meeting of the remuneration committee meeting are as follows:

Members	**Attendance**
Mr. Lam Kai Yeung	1/1
Ms. Niu Shu Min	1/1
Mr. Zhao Zhen Xing	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company during the year.

The Board of directors considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year.

During the period, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association (subject to the proposed amendments at the forthcoming annual general meeting), except Mr. Xu Zhe, those who have served the Company for more than three year will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xu Zhe, being the chairman of the Company, is not subject to retirement by rotation.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. The remuneration in respect of audit services and non-audit services provided by the auditors to the Company for the year ended 31 December 2008 amounted to RMB379,000 and RMB Nil respectively.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, financial controls, internal control and risk management systems; of the Company and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to Directors. The audit committee comprises three members, Mr. Lam Kai Yeung, Miss Niu Shu Min and Mr. Zhao Zhen Xing. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Lam Kai Yeung.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Mr. Lam Kai Yeung	2/2
Ms. Niu Shu Min	4/4
Mr. Zhao Zhen Xing	4/4

The Company's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2008 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The audited consolidated results of the Company for the year have been reviewed by the audit committee.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors knowledge their responsibilities for the preparation of the financial statements of the Company and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Company. The statements of the external auditors of the Company, NCN CPA Limited, about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditors' Report on pages 22 to 23 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

AUDITORS

During the year under review, the performance of the external auditors of the Company has been reviewed and it is proposed to reappoint external auditors.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquires from shareholders timely; (iv) updated and key information of the Company available on website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

LOOKING FORWARD

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavour to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting ("AGM") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") will be held at No.3, No.2 Road, Jilin Hi-Tech Development Zone, Jilin City, Jilin Province, the PRC on 15 May 2009 at 9:00 a.m. for the following purposes:

To consider and, if thought fit, pass the following matters as ordinary resolutions:

1. To receive and consider the audited financial statements of the Company and the Report of the Directors and the Auditors respectively for the year ended 31 December 2008;

2. To appoint auditors and to authorize the board of directors of the Company to fix their remuneration;

3. To empower the executive directors of the Company to exercise the authority for the determination of incentive bonus to the relevant person of the Company as a motivation for the contribution of efforts to the development of the Company, if any;

4. To consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2008; and

5. To transact any other business, if any.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
19 March 2009

Notes:

1. Any shareholder entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.

2. In order to be valid, the proxy form of holder of H shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's registered office not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

3. Shareholders or their proxies shall produce their identity documents when attending the meeting.

4. The H share register of shareholders of the Company will be closed from 16 April 2009 to 15 May 2009 (both days inclusive), during which no transfer of shares will be registered. In order to ascertain the entitlement to attend at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar not later than 4:00 p.m. on 15 April 2009, for registration.

5. Shareholders who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it to the Company's registered office not later than 24 April 2009.

Report of the Directors

The Directors are pleased to present their report together with the audited financial statements of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") for the year ended 31 December 2008.

COMPANY ORGANISATION

The Company was incorporated in the People's Republic of China (the "PRC") on 20 November 1998 as a privately owned company with limited liability. On 30 June 2000, the Company was converted into a joint stock company with limited liability in the PRC.

The Company's H shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 February 2002.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sale of Chinese medicine products in the PRC as well as conducting pharmaceutical research and development.

MAJOR SUPPLIERS 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	51%
– five largest suppliers combined	82%

Sales

– the largest customer	12%
– five largest customers combined	32%

None of the Directors, Supervisors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the income statement on page 24.

The Directors do not recommend the payment of a dividend.

RESERVES

Movement of the reserves of the Company during the year is set out in Note 24 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of property, plant and equipment of the Company are set out in Note 16 to the financial statements.

FOREIGN EXCHANGE RISK

Since all of the income and most of expenses of the Company are denominated in Renminbi, as at 31 December 2008 the Directors consider the impact on foreign exchange exposure of the Company is minimal.

CONTINGENT LIABILITIES

Up to the date of this report, the Company did not have any material contingent liabilities.

SIGNIFICANT INVESTMENT

During the year, the Company did not have no any significant investment which needed to disclose.

MERGERS AND ACQUISITIONS

During the year, the Company has not engaged in any mergers and acquisitions which need to disclose.

DISPOSAL OF MAJOR ASSETS AND INVESTMENTS

During the year, the Company has not disposed of any major assets and investments.

SHARE CAPITAL

Details of movement of share capital of the Company are set out in Note 23 to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors
Xu Zhe *(Chairman)*
Xu Dao Tian *(Deputy-Chairman)*
Du Li Hua *(Deputy-Chairman)*
Leng Zhan Ren

Independent Non-executive Directors
Lam Kai Yeung
Niu Shu Min
Zhao Zhen Xing

In accordance with the Articles of Association of the Company, all Directors will retire every three years and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the Directors and Supervisors has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

RETIREMENTS SCHEME, PERSONNEL AND PAYROLL

Particulars of the retirement scheme of the Company are set out in Note 11 to the accompanying financial statements.

CHARGES ON ASSETS

As at 31 December 2008, no assets were pledged to any parties to secure any loans or borrowings granted to the Company.

BORROWINGS

Particulars of borrowings of the Company as at 31 December 2008 are set out in Note 20 to the accompanying financial statements.

CONNECTED PARTY TRANSACTIONS

The related party transactions disclosed in Note 25 to the accompanying financial statements constitute the connected transactions under Chapter 20 of the GEM Listing Rules.

The non-executive directors of the Company had reviewed the connected transactions of the year ended 31 December 2008 and confirmed that the transactions have been entered into:

(i) these transactions were entered into in the ordinary and usual course of business of the Company;

(ii) these transactions were entered into on normal commercial terms or, in the absence of comparable transactions to provide a sufficient basis to determine whether those transactions were entered into on normal commercial terms, on terms that were no less favorable than those available to or from (as applicable) independent third parties so far as the Company was concerned;

(iii) these transactions were entered into on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) the aggregate amount of each of these transactions has not exceeded the annual total cap amount as approved by the Stock Exchange.

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

As at 31 December, 2008, the interests and short positions of the Directors and supervisors of the Company ("Supervisor") in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange, were as follows:

- **Long positions in Shares**

Name of Directors or Supervisors	Number of Domestic Shares personally interested	Approximate percentage of Shareholding *(%)*
Xu Zhe	183,482,440	24.57
Xu Dao Tian	150,644,480	20.18
Zhang Ya Bin	1,618,960	0.22
Leng Zhan Ren	1,349,140	0.18
	337,095,020	45.15

Save as disclosed above, none of the Directors, Supervisors and the chairman or their respective associates had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December, 2008, the Company was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor, as at 31 December, 2008, the persons or companies (not being a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follow:

- **Long positions in Shares**

Name	Number of domestic shares held	Approximate percentage of shareholding *(%)*
Liu Yang	194,194,580	26.01

Save as disclosed above, as at 31 December, 2008, the Directors were not aware of any other person who had an interest or short position in the Shares of the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the Directors and Supervisors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in any business that competes or may compete with the business of the Company.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee. In compliance with Rule 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Company. The audit committee comprises Mr. Lam Kai Yeung, Ms. Niu Shu Min and Mr. Zhao Zhen Xing, all of who are independent non-executive Directors.

The audit committee had conducted a meeting and reviewed the Company's unaudited results for the period ended 31 December, 2008 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

CORPORATE GOVERNANCE

During the period under review, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on the GEM.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those required for securities transactions by directors. The Company has confirmed after making due enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities transaction by directors.

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

Since the H shares of the Company commenced trading on GEM on 28 February, 2002, the Company has not purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND AND CLOSURE OF H SHARE REGISTER

The Directors do not recommend the payment of a dividend. The H share register of shareholders of the Company will be closed from 16 April 2009 to 15 May 2009 (both days inclusive).

AUDITORS

The financial statements have been audited by NCN CPA Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
19 March 2009

Independent Auditors' Report

TO THE SHAREHOLDERS OF
NORTHEAST TIGER PHARMACEUTICAL CO., LTD.
(A joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements of Northeast Tiger Pharmaceutical Co., Ltd. set out on pages 24 to 59, 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 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. This report is made 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' judgement, 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.

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

Independent Auditors' Report

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 it's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

NCN CPA LIMITED
Certified Public Accountants

Choi Man Chau, Michael
Practising Certificate Number P01188

20/F., Hong Kong Trade Centre,
161-167 Des Voeux Road,
Central, Hong Kong,
Hong Kong S.A.R., China

19 March 2009

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Renminbi)

	Note	**2008 RMB'000**	2007 RMB'000
Turnover	5	**64,522**	49,707
Cost of sales		**(42,704)**	(37,289)
Gross profit		**21,818**	12,418
Other revenue	5	**601**	9,229
Gain on disposal of property, plant and equipment		**19**	4,549
Impairment losses on buildings		**(1,292)**	(4,397)
Impairment losses on trade receivables		**(2,532)**	–
Distribution and selling expenses		**(4,445)**	(3,850)
General, administrative and operating expenses		**(8,484)**	(12,616)
Profit from operations	6	**5,685**	5,333
Finance costs	7	**(18)**	(1,246)
Profit before income tax expense		**5,667**	4,087
Income tax expense	8	**–**	–
Profit attributable to shareholders	24	**5,667**	4,087
Dividends	10	**–**	–
Earnings per share			
Basic	9	**0.76cents**	0.55cents
Diluted	9	**N/A**	N/A

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

(Expressed in Renminbi)

	Note	**2008 RMB'000**	2007 RMB'000
Non-current assets			
Intangible assets	14	**–**	–
Land use rights	15	**10,844**	11,091
Property, plant and equipment	16	**40,934**	43,436
		51,778	54,527
Current assets			
Inventories	17	**14,789**	11,044
Trade and other receivables	18	**32,481**	31,747
Cash and bank balances	19	**11,610**	20,501
		58,880	63,292
Total assets		**110,658**	117,819
Less: Current liabilities			
Short-term borrowings	20	**20**	10,020
Trade and other payables	21	**25,848**	28,676
		25,868	38,696
Net current assets		**33,012**	24,596
Net assets		**84,790**	79,123
Capital and reserves			
Share capital	23	**74,665**	74,665
Reserves	24	**10,125**	4,458
Total equity		**84,790**	79,123

The financial statements were approved by the Board of Directors on 19 March 2009 and signed on behalf of the Board by:

Xu Zhe
Director

Leng Zhan Ren
Director

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

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Renminbi)

		Capital reserve					
	Share capital	**Share premium**	**Others**	**Statutory public welfare fund**	**Statutory revenue reserve**	**Accumulated losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2007	74,665	19,027	11,326	3,928	5,757	(39,667)	75,036
Profit for the year	–	–	–	–	–	4,087	4,087
As at 31 December 2007 and at 1 January 2008	74,665	19,027	11,326	3,928	5,757	(35,580)	79,123
Profit for the year	–	–	–	–	–	5,667	5,667
As at 31 December 2008	74,665	19,027	11,326	3,928	5,757	(29,913)	84,790

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Renminbi)

	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax expense	**5,667**	4,087
Impairment losses on buildings	**1,292**	4,397
Amortisation of intangible assets	**–**	32
Depreciation of property, plant and equipment	**2,375**	5,022
Amortisation of land use right	**247**	246
Gain on disposal of property, plant and equipment	**(19)**	(4,549)
Provision for impairment of trade receivables	**2,532**	(6,279)
Provision for impairment of advances to staff	**116**	(2,947)
Provision for impairment of other receivables	**(141)**	2,235
Interest expenses	**–**	1,227
Interest income	**(14)**	(2)
Operating profit before movements in working capital	**12,055**	3,469
(Increase)/Decrease in inventories	**(3,745)**	191
(Increase)/Decrease in trade and other receivables	**(3,241)**	930
(Decrease)/increase in trade and other payables	**(2,828)**	697
NET CASH GENERATED FROM OPERATING ACTIVITIES	**2,241**	5,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**14**	2
Proceeds from sale of property, plant and equipment	**130**	24,000
Purchase of property, plant and equipment	**(1,276)**	(239)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	**(1,132)**	23,763
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term borrowings	**(10,000)**	(24,000)
Interest paid	**–**	(1,227)
NET CASH USED IN FINANCING ACTIVITIES	**(10,000)**	(25,227)

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

(Expressed in Renminbi)

	2008 **RMB'000**	2007 RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(8,891)**	3,823
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**20,501**	16,678
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**11,610**	20,501
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**11,610**	20,501

All of the Company's cash and bank balances are denominated in Renminbi which is not freely convertible to other currencies.

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

1. CORPORATE INFORMATION

Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC") and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The addresses of its registered office and principal place of business are disclosed in the corporate information section of the annual report.

The financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

Its principal activities are the development, manufacture and sale of medicines in the PRC. There were no significant changes in the nature of its principal activities during the year.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention except that the intangible assets, land use rights and buildings are measured at their revalued amount or fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements 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 underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) The adoption of new and revised HKFRSs

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

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

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

The Company has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Company.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 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]

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) The adoption of new and revised HKFRSs (continued)

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

(d) Foreign currency translation

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in income statement for the period in which they arise.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less subsequent depreciation and impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Any revaluation increase arising on revaluation of buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained earnings.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

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

Buildings	:	25-35 years
Machinery	:	5-11 years
Motor vehicles	:	8 years
Office equipment and others	:	5 years

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

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

(f) Intangible assets

(i) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical and commercial feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 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.

(ii) Technical know-how

Costs on acquired technical know-how are recognised and amortised using the straight-line method over the estimated useful lives of between 5 to 10 years, from the date when the technical know-how is available for use.

Both the period and method of amortisation are reviewed annually.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of assets

(i) Impairment of trade and other receivables

At each balance sheet date, the Company reviews the carrying amounts of its trade and other receivables to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

– significant financial difficulty of the debtor;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Impairment loss recognised in respect of trade debtors included in trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account. Other changes in the allowance account and subsequent recoveries of amount previously written off directly are recognised in income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amount);

– Pre-paid interests in leasehold land classified as being held under an operating lease; and

– Intangible assets.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) 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 design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Borrowing costs (continued)

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowances for impairment of doubtful debts (see note 2(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iii) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(iv) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs as stated in note 2(i).

(v) Trade and other payables

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Income tax

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Share capital

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

(m) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenue is recognized as follows:

(i) Sales of goods are recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition (continued)

(ii) Subsidy income is recognised upon granting of subsidy by the relevant authorities.

(iii) Interest income from bank deposits is recognised on a time-apportioned basis that takes into account the effective yield on the assets.

(n) Related party transactions

A party is related to the Company if:

a. directly, or indirectly through one or more intermediaries, the party:

(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 a jointly controlled entity in which the entity is a venturer;

c. the party is an associate;

d. the party is a member of the key management personnel of the Company;

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 employees of the Company, or of any entity that is a related party of the Company.

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are charged as an expense when employees have rendered service entitling them to the contributions. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Details of employee benefits are set out in note 11.

(p) Provisions and contingent liabilities

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

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

(q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(r) Segment reporting

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

(i) Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Company has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may effect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Judgements (continued)

(ii) Income taxes

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 assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all or the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

(b) Estimation uncertainty

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

(i) Impairment test of assets

The Company determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Income taxes

The Company reviews the carrying amount of deferred tax assets at each balance sheet date and reduces the amount 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. This requires an estimation of the future taxable profits. Estimating the future taxable profits requires the Company to make an estimate of the expected future earnings from the Company and also to choose a suitable discount rate in order to calculate the present value of the earnings.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Estimation uncertainty (continued)

(iii) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Company assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year when the estimate is changed and the future period.

4. SEGMENT INFORMATION

No business segment information (primary segment information) has been disclosed for the year as the Company is operating in a single business segment which is the development, manufacture and sale of medicine products in the PRC. Substantially all of the Company's revenues are generated in the PRC and all of the Company's assets are located in the PRC and therefore no geographical segment information has been disclosed for the year.

5. TURNOVER AND OTHER REVENUE

	2008 RMB'000	2007 RMB'000
Turnover:		
Sales of medicines in the PRC	**64,522**	49,707
Other revenue:		
Provision for impairment loss on trade receivables written back	**–**	6,279
Provision for impairment loss on advance to staff written back	**–**	2,947
Provision for impairment loss on other receivables written back	**511**	–
Interest income from bank deposits	**14**	2
Sundry income	**76**	1
	601	9,229
Total revenues	**65,123**	58,936

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers. All of the Company's sales made in the PRC are subject to value added tax ("VAT") at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Company on purchases ("input VAT").

6. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/(crediting):

	2008 RMB'000	2007 RMB'000
Cost of inventories sold	**42,704**	37,289
Staff costs excluding directors' emoluments		
– Staff salaries and wages	**3,273**	2,718
– Provision for staff and workers' bonus and welfare fund	**345**	262
– Contributions to defined contribution retirement scheme	**591**	347
Provision for impairment of advances to staff	**116**	–
Provision for impairment of advances to staff written back	**–**	(2,947)
Provision for impairment of other receivables	**370**	2,235
Amortisation of intangible assets	**–**	32
Amortisation of land use rights	**247**	246
Depreciation of property, plant and equipment	**2,375**	5,022
Research and development costs	**12**	162
Auditors' remuneration	**379**	402

7. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on bank loans wholly repayable on demand	**–**	1,227
Bank charges	**18**	19
	18	1,246

8. INCOME TAX EXPENSE

The income tax expense represents:

	2008 RMB'000	2007 RMB'000
PRC enterprise income tax ("EIT")		
– EIT overprovision	**–**	–
– Deferred tax provision for EIT written back	**–**	–
	–	–

The Company was established in Jilin High-Technology Development Zone, the PRC. The applicable enterprise income tax rate was 15% for each of the years ended 31 December 2007 and 2008.

8. INCOME TAX EXPENSE (CONTINUED)

No provision for EIT has been made as the Company has no estimated assessable profits after setting off against the unrelieved tax losses brought forward from previous year (2007: Nil).

The following is a reconciliation of the expected income tax calculated at the applicable income tax rate of 15% on the profit before income tax expense:

	2008 RMB'000	2007 RMB'000
Profit before income tax expense	**5,667**	4,087
Expected income tax thereon at applicable income tax rate	**850**	613
Utilisation of tax losses brought forward	**(850)**	(613)
Income tax expense for the year	**–**	–

No deferred tax asset has been recognised in respect of the unused tax losses carried forward due to the unpredictability of future profit streams.

9. EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Company's profit attributable to shareholders of approximately RMB5,667,000 (2007: RMB4,087,000) and the weighted average number of 746,654,240 shares (2007: 746,654,240 shares) in issue during the year.

(b) No diluted earnings per share is presented as there are no dilutive potential ordinary shares in issue for each of the years ended 31 December 2007 and 2008.

10. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2008 (2007: Nil).

11. EMPLOYEE BENEFITS

(a) Retirement scheme

The Company participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. Each employee covered by these schemes is entitled, after retirement from the Company, to a pension as of their retirement dates. The local government authorities are responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme at a rate of 23% (2007: 23%) based on the eligible employees' salaries.

11. EMPLOYEE BENEFITS (CONTINUED)

(a) Retirement scheme (continued)

The Company has arranged for its Hong Kong employees to join a mandatory provident fund scheme (the "MPF Scheme") in accordance with the Hong Kong Mandatory Provident Fund Schemes Ordinance, which is a defined contribution scheme managed by an independent trustee. Both the Company (the employer) and its employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions of employer and employees are subject to a cap of monthly earnings of HK$20,000 and thereafter contributions are voluntary. The assets of the fund are held separately from those of the Company and are managed by independent professional fund managers.

(b) Housing fund

The Company has opened housing fund accounts for all its employees in January 2001. The housing fund scheme comprised of two parts, the Company and individual employees are required to contribute to the housing fund. The amount payable by each employee will be deducted from the employee's monthly salary by the Company. The ratio of housing fund to be deposited by individual employee and the Company is 5% of the average monthly salary of such employee for the previous year. Withdrawals from the fund are subject to qualifications and procedures specified under local regulations.

12. DIRECTORS' EMOLUMENTS

Details of directors' emoluments disclosed pursuant to the requirements of the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2008 **RMB'000**	2007 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and other benefits	**600**	443
Pension scheme contributions	**5**	5
Bonuses paid and payable	**–**	–
	605	448

12. DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of every director for the year ended 31 December 2008 are set out below:

	Fees RMB'000	**Salaries, allowances and other benefits** RMB'000	**Pension scheme contributions** RMB'000	**Bonuses paid and payable** RMB'000	**Total emoluments** RMB'000
2008					
Executive directors:					
Xu Zhe	**-**	**600**	**5**	**-**	**605**
Du Li Hua	**-**	**-**	**-**	**-**	**-**
Xu Dao Tian	**-**	**-**	**-**	**-**	**-**
Leng Zhan Ren	**-**	**-**	**-**	**-**	**-**
Independent non-executive directors:					
Liu Jin (note (a))	**-**	**-**	**-**	**-**	**-**
Niu Shu Min	**-**	**-**	**-**	**-**	**-**
Zhao Zhen Xing	**-**	**-**	**-**	**-**	**-**
Lam Kai Yeung (note (b))	**-**	**-**	**-**	**-**	**-**
	-	**600**	**5**	**-**	**605**

Note: a. Liu Jin resigned on 25 January 2008.
b. Lam Kai Yeung appointed on 7 August 2008.

The emoluments of every director for the year ended 31 December 2007 are set out below:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension scheme contributions RMB'000	Bonuses paid and payable RMB'000	Total emoluments RMB'000
2007					
Executive directors:					
Xu Zhe	–	443	5	–	448
Du Li Hua	–	–	–	–	–
Xu Dao Tian	–	–	–	–	–
Leng Zhan Ren	–	–	–	–	–
Independent non-executive directors:					
Liu Jin	–	–	–	–	–
Niu Shu Min	–	–	–	–	–
Zhao Zhen Xing	–	–	–	–	–
	–	443	5	–	448

12. DIRECTORS' EMOLUMENTS (CONTINUED)

The four (2007: three) independent non-executive directors did not receive any emoluments for the year ended 31 December 2008 (2007: Nil). The emoluments of each of the directors were within the band of nil to RMB880,000 (equivalent to HK$1,000,000) for the years ended 31 December 2007 and 2008.

None of the directors waived or agreed to waive any emoluments during the year ended 31 December 2008 (2007: Nil). No emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2008 (2007: Nil).

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, one (2007: one) is a director whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the other four (2007: four) individuals are as follows:

	2008 **RMB'000**	2007 RMB'000
Basic salaries, housing benefits and other benefits	**814**	719
Pension scheme contributions	**27**	10
Bonuses paid and payable	**–**	–
	841	729

The emoluments of each of the five highest paid individuals, including directors, were within the band of nil to RMB880,000 (equivalent to HK$1,000,000).

No emoluments were paid by the Company to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2008 (2007: Nil).

14. INTANGIBLE ASSETS

	Technical know-how RMB'000	**Computer software** RMB'000	**Total** RMB'000
At cost:			
As at 1 January 2007	16,096	223	16,319
Additions	–	–	–
As at 31 December 2007 and at 1 January 2008	16,096	223	16,319
Additions	–	–	–
As at 31 December 2008	16,096	223	16,319
Accumulated depreciation and impairment losses:			
As at 1 January 2007	16,096	191	16,287
Charge for the year	–	32	32
As at 31 December 2007 and at 1 January 2008	16,096	223	16,319
Charge for the year	–	–	–
As at 31 December 2008	16,096	223	16,319
Net carrying amount:			
As at 31 December 2008	–	–	–
As at 31 December 2007	–	–	–

15. LAND USE RIGHTS

The Company's interests in land use rights represented prepaid operating lease payments and their net carrying value are analysed as follows:

	RMB'000
At Cost:	
As at 1 January 2007	13,906
Disposals	(1,583)
As at 31 December 2007 and at 1 January 2008	12,323
Additions	–
As at 31 December 2008	12,323
Accumulated amortization:	
As at 1 January 2007	1,144
Amortisation for the year	246
Written back on disposal	(158)
As at 31 December 2007 and at 1 January 2008	1,232
Amortisation for the year	247
As at 31 December 2008	1,479
Net carrying value:	
As at 31 December 2008	10,844
As at 31 December 2007	11,091

Notes:

(a) The land use rights of the Company as at 31 December 2008 are held on medium term leases and situated in the PRC.

(b) As at 31 December 2008, no land use rights were pledged as security for the Company's short-term bank loans (2007: RMB886,000).

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Total RMB'000
At cost/valuation:					
As at 1 January 2007	71,381	22,002	2,534	9,140	105,057
Additions	–	219	–	20	239
Disposals	(17,426)	(12,546)	–	(1,744)	(31,716)
As at 31 December 2007 and at 1 January 2008	53,955	9,675	2,534	7,416	73,580
Additions	8	770	444	54	1,276
Disposals	–	–	(1,443)	(3,669)	(5,112)
As at 31 December 2008	53,963	10,445	1,535	3,801	69,744
Accumulated depreciation and impairment losses					
As at 1 January 2007	15,907	9,989	1,685	6,834	34,415
Charge for the year	1,683	2,063	293	983	5,022
Written back on disposal	(4,572)	(7,846)	–	(1,272)	(13,690)
Impairment loss	4,397	–	–	–	4,397
As at 31 December 2007 and at 1 January 2008	17,415	4,206	1,978	6,545	30,144
Charge for the year	1,142	746	277	210	2,375
Written back on disposal	–	–	(1,332)	(3,669)	(5,001)
Impairment loss	1,292	–	–	–	1,292
As at 31 December 2008	19,849	4,952	923	3,086	28,810
Net carrying amount:					
As at 31 December 2008	34,114	5,493	612	715	40,934
As at 31 December 2007	36,540	5,469	556	871	43,436

Notes:

(a) As at 31 December 2008, the Company's buildings were appraised by an independent Hong Kong professional valuer, Asset Appraisal Limited. These properties were appraised on the basis of depreciated replacement cost and were carried in the balance sheet at fair market value of approximately RMB34,160,000 as at 31 December 2008. The impairment loss of approximately RMB1,292,000 has been charged to the income statement during the year.

(b) As at 31 December 2008, no buildings were pledged as security for the Company's short-term bank loans (2007: RMB1,140,000).

(c) As at 31 December 2007, the Company's buildings were appraised by an independent Hong Kong professional valuer, Asset Appraisal Limited. These properties were appraised on the basis of depreciated replacement cost and were carried in the balance sheet at fair market value of approximately RMB36,540,000 as at 31 December 2007. The impairment loss of approximately RMB4,397,000 was charged to the income statement during the year.

17. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**3,701**	2,737
Work-in-progress	**3,211**	3,099
Finished goods	**8,020**	5,351
Total inventories	**14,932**	11,187
Less: Provision for impairment of inventories	**(143)**	(143)
Total inventories, net of provision	**14,789**	11,044

18. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables	**19,872**	16,995
Advances to staff	**261**	579
Prepayment and other receivables	**12,348**	14,173
	32,481	31,747

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The average credit period on sale of goods is 90 days. The Company has made full provision for impairment for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable. As at 31 December 2008, the ageing analysis of trade receivables was as follows:

	2008 RMB'000	2007 RMB'000
0 – 30 days	**10,326**	2,573
31 – 60 days	**1,831**	4,677
61 – 90 days	**1,991**	4,967
91 – 180 days	**2,386**	2,149
181 – 365 days	**3,338**	2,629
Over 365 days	**40,082**	37,550
Total trade receivables	**59,954**	54,545
Less: Provision for impairment	**(40,082)**	(37,550)
Total trade receivables, net of provision	**19,872**	16,995

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables at the balance sheet dates mainly comprise amounts receivable from sales of Chinese medicine products. No interest is charged on the trade receivables. The Company does not hold any collateral over these balances.

The Company's trade receivables are denominated in functional currency.

Included in trade receivables are debtors with carrying amounts of approximately RMB5,724,000 (2007: RMB4,778,000) which are past due at the balance sheet date for which the Company had not provided for impairment loss as there is no significant change in credit quality and the amounts are still considered recoverable. The management of the Company monitors the recoverable amount of each individual trade debt and considers adequate impairment loss is made for irrecoverable amount, if necessary.

Ageing of trade receivables which are past due but not impaired:

	2008 RMB'000	2007 RMB'000
91 – 180 days	**2,386**	2,149
181 – 365 days	**3,338**	2,629
	5,724	4,778

Movement in provision for impairment:

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	**37,550**	43,829
Provision made	**2,532**	–
Provision written back	**–**	(6,279)
Balance at end of the year	**40,082**	37,550

19. CASH AND CASH EQUIVALENTS

	2008 RMB'000	2007 RMB'000
Cash and bank balances	**11,610**	20,501

Bank balances and cash comprise cash held by the Company with an original maturity of three months or less.

Bank balances are interest bearing at respective saving deposits rate in the PRC, and the effective interest rates of the Company's balances ranged from 0.36% to 0.72% (2007: 0.72% to 0.81%) per annum.

20. SHORT-TERM BORROWINGS

	2008 RMB'000	2007 RMB'000
Other borrowings (Note (a))	**20**	10,020
	20	10,020

Notes:

(a) The balance of unsecured loan amounted to RMB20,000 from an independent third party was interest bearing at 5.31% per annum and repayable on demand.

21. TRADE AND OTHER PAYABLES

	2008 RMB'000	2007 RMB'000
Trade payables	**9,322**	13,255
Provision for staff welfare	**–**	16
Payable for PRC statutory contribution	**3,846**	3,748
Other taxes payable	**9,157**	8,233
Other payables and accruals	**3,523**	3,424
	25,848	28,676

As at 31 December 2008, the ageing analysis of trade payables was as follows:

	2008 RMB'000	2007 RMB'000
0 – 1 month	**3,926**	2,022
1 – 6 months	**1,702**	8,148
6 – 12 months	**660**	1,871
Over 1 year	**3,034**	1,214
	9,322	13,255

22. DEFERRED TAX LIABILITIES

	2008 RMB'000	2007 RMB'000
As at 1 January	**–**	–
Credited to the income statement	**–**	–
As at 31 December	**–**	–

23. SHARE CAPITAL

	2008 RMB'000	2007 RMB'000
Authorised, issued and fully paid:		
539,654,240 domestic shares of RMB0.1 each	**53,965**	53,965
207,000,000 H shares of RMB0.1 each	**20,700**	20,700
Total ordinary shares as at 31 December	**74,665**	74,665

Domestic shares and H shares are ordinary shares in the registered share capital of the Company. However, H shares may only be subscribed for by or traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan and any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for or purchased in Renminbi. Any dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas any dividends in respect of domestic shares are to be paid by the Company in Renminbi.

24. RESERVES

	Capital reserve					
	Share premium RMB'000	Others RMB'000	Statutory public welfare fund RMB'000	Statutory revenue reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2007	19,027	11,326	3,928	5,757	(39,667)	371
Profit for the year	–	–	–	–	4,087	4,087
As at 31 December 2007 and at 1 January 2008	19,027	11,326	3,928	5,757	(35,580)	4,458
Profit for the year	–	–	–	–	5,667	5,667
As at 31 December 2008	19,027	11,326	3,928	5,757	(29,913)	10,125

Notes:

(a) According to the relevant regulations in the PRC and the Articles of Association of the Company, when distributing net profit each year, the Company shall set aside 10% of its profit after tax based on the statutory financial statements for the statutory revenue reserve (except where the reserve balance has reached 50% of the Company's paid-up share capital), and 5% to 10% at the discretion of the Board of Directors for the statutory public welfare fund, and for the discretionary revenue reserve at a percentage determined by the Board of Directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as dividends without the prior approval by shareholders under certain conditions.

24. RESERVES (CONTINUED)

(b) When the statutory revenue reserve is not sufficient to cover prior years' losses, current year's net profit will first be used to compensate the previous losses before appropriations to the statutory revenue reserve and statutory public welfare fund.

(c) The statutory revenue reserve as approved by the shareholders may be converted into share capital when the level of the reserve reaches 25% of the registered share capital provided that the balance of the statutory revenue reserve should not fall below 25% of the registered share capital after the conversion. As at 31 December 2008, no statutory revenue reserve was transferred into share capital subsequent to the Company's reorganisation to a joint stock limited Company.

(d) The discretionary revenue reserve as approved by the shareholders may be converted into share capital.

(e) The capital reserve of the Company includes certain non-distributable reserves created in accordance with the relevant accounting and financial regulations in the PRC. Certain components of the capital reserve could be capitalised into share capital upon approval.

(f) Profit appropriation is subject to the approval of the Board of Directors and the shareholders' meeting. In accordance with the prevailing rules and regulations in the PRC, the reserve available for distribution is the lower of the amount determined under accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong.

25. RELATED PARTY TRANSACTIONS

(a) The following is a summary of significant related party transactions which, in the opinion of the Directors, were carried out in the ordinary course of the Company's business:

Related party	**Nature of transaction**	**2008 RMB'000**	2007 RMB'000
Jilin You Lian Wei Shi Industrial Company Limited, a company owned by a director, Xu Dao Tian	Purchases	**156**	322

(b) Compensation of key management personnel of the Company
Details of remuneration and related benefits of the key personnel are disclosed in note 12.

26. CAPITAL RISK MANAGEMENT

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

26. CAPITAL RISK MANAGEMENT (CONTINUED)

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the net debt-to equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total liabilities (including current and non-current liabilities as shown in the consolidated balance sheet) less cash and cash equivalents. Total equity represents the equity as shown in the balance sheet. The net debt-to-equity ratios at 31 December 2008 and 2007 are as follows:

	2008 **RMB'000**	2007 RMB'000
Total debt	**25,868**	38,696
Less: Cash and cash equivalents	**(11,610)**	(20,501)
Net debt	**14,258**	18,195
Total equity	**84,790**	79,123
Net debt-to-equity ratio	**17%**	23%

The decrease in net debt-to-equity ratio at 31 December 2008 resulted primarily from the repayment of short-term borrowings (note 20).

27. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 **RMB'000**	2007 RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalent)		
Trade and other receivables	**32,481**	31,747
Cash and bank balances	**11,610**	20,501
	44,091	52,248
Financial liabilities		
Other financial liabilities at amortised cost		
Short-term borrowings	**20**	10,020
Trade and other payables	**25,848**	28,676
	25,868	38,696

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies

The Company's major financial instruments include trade and other receivables, cash and bank balances, short-term borrowings and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Foreign currency risk

The Company's main trading operations are in the PRC and has significant exposure to foreign currencies other than Renminbi.

All the Company's cash and cash equivalents are denominated in Renminbi and deposited in banks located in the PRC. All trade and other receivables and borrowings of the Company are denominated in Renminbi. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

The carrying amount of the Company's significant foreign currency denominated in monetary liabilities at the reporting date is as follows:

	Liabilities	
	2008 **RMB'000**	2007 RMB'000
Hong Kong Dollars	**379**	402

Sensitivity analysis

The Company is mainly exposed to the effect of fluctuation in Hong Kong Dollars. The following table details the Company's sensitivity to a 5% increase and decrease in the functional currency exchange rates of the company against the Hong Kong Dollars. 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 exchange rates. A positive number below indicates an increase in profit attributable to shareholders for the year where the functional currencies of the Company strengthen 5% against Hong Kong Dollars. For a 5% weakening of the functional currencies of the Company against the Hong Kong Dollars, there would be an equal and opposite impact on the profit, and the balances below would be negative.

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies (continued)

(i) Market risk (continued)

Foreign currency risk (continued)

	2008 **RMB'000**	2007 RMB'000
Hong Kong Dollars	**19**	20

Interest rate risks

The Company's cash flow interest rate risk relates primarily to short-term borrowings (see note 20) and bank balances (see note 19). The management considers the Company's exposure of the short-term borrowings and bank balances to interest rate risk is not significant as they have a short maturity period.

The Company is also exposed to fair value interest rate risk in relation to fixed-rate short-term borrowings (see note 20). The management monitors interest rate exposure and will consider repay the fixed-rate short-term borrowings when significant interest rate exposure is anticipated.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount of variable-rate bank balances at the balance sheet date was the amount outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit attributable to shareholders for the year ended 31 December 2008 would increase/decrease by RMB121,000 (increase/decrease by 2007: RMB258,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank balances.

Price risk

The Company is exposed to the increasing price competition and life cycle of the products that have elastic price sensitive on demand. The Company adjusts the product price in response to the change in price risk over time.

(ii) Credit risk management

As at 31 December 2008, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the balance sheet.

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies (continued)

(ii) Credit risk management (continued)

In order to minimise the credit risk in relation to trade receivables, the management of the Company has strengthened the credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk is concentrated as 15% (2007: 8%) and 38% (2007: 62%) of the total trade receivables are due from the Company's largest customer and the five largest customers. However, the management considers, based on the strong financial background and good creditability of those debtors, there are no significant credit risks.

(iii) Liquidity risk management

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. The Company relies on borrowings as a significant source of liquidity.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. For non-derivative financial liabilities, the tables reflect 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.

2008	Effective interest rate	On demand RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount at 31.12.2008 RMB'000
Short-term borrowings	5.31%	20	20	20
Trade and other payables	–	25,848	25,848	25,848
		25,868	25,868	25,868

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies (continued)

2007	Effective interest rate	On demand RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount at 31.12.2007 RMB'000
Short-term borrowings				
– Interest bearing	5.31%	20	20	20
– Non-interest bearing	–	10,000	10,000	10,000
Trade and other payables	–	28,676	28,676	28,676
		38,696	38,696	38,696

(c) Fair value

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

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

Financial Summary

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Renminbi)

A summary of the results and of the assets and liabilities of the Company for the past five financial years is set out below:

	Year ended 31 December				
	2008	2007	2006	2005	2004
Results	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(Loss) attributable to shareholders	**5,667**	4,087	(23,573)	(24,237)	(18,397)

	2008	2007	2006	2005	2004
Assets and liabilities	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**110,658**	117,819	137,035	163,097	188,324
Total liabilities	**(25,868)**	(38,696)	(61,999)	(64,488)	(63,906)
Shareholders' equity	**84,790**	79,123	75,036	98,609	124,418