China Asean Resources Limited

神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

ANNUAL REPORT **2008**

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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Corporate Information

Board of Directors

Executive directors

LEUNG Sze Yuan, Alan *(Chairman)*
ZHANG Zhenzhong *(Chief Executive Officer)*

Non-executive directors

LI Nga Kuk, James
LI Tai To, Titus

Independent non-executive directors

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

Audit Committee

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

Nomination Committee

FAN Wan Tat *(Chairman)*
TAM Wai Leung, Joseph
Leung Sze Yuan, Alan

Remuneration Committee

TAM Wai Leung, Joseph *(Chairman)*
FAN Wan Tat
LEUNG Sze Yuan, Alan

Compliance Officer

LEUNG Sze Yuan, Alan

Company Secretary

LAI Tin Yin, Fion

Bermuda Assistant Secretary

Appleby Services (Bermuda) Ltd.

Qualified Accountant

LAI Tin Yin, Fion

Auditor

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

Head Office and Principal Place of Business

8th Floor, Teda Building
87 Wing Lok Street, Hong Kong

Registered Office

Canon's Court, 22 Victoria Street
Hamilton HM12

Hong Kong Share Registrar

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

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

GEM Stock Code

8186

Website Address

www.chinaaseanresources.com

Chairman's Statement

I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2008.

Result Analysis

- For the year ended 31 December 2008, the Group recorded a turnover of HK$47,927,000, representing an increase of 24.7% over the year 2007. Profit attributable to equity holders of the Company was approximately HK$68,665,000 (2007: loss of HK$21,989,000).

  Reference is made to the Company's circular and announcement on 9 May 2008 and 21 November 2008 respectively.

  Included in the result for the year were:

  (1) Sub-concession of 10% of the First Forest, the completion of which took place on 30 June 2008. The Group recorded a gain of HK$51,985,000 arising from the sub-concession; and

  (2) Initial service fee income of HK$78,000,000 (equivalent to US$10,000,000) upon signing an exclusive services agreement with Eastwood Link Limited ("ELL"), pursuant to which ELL agreed to pay the Group a consideration of US$10,000,000 for being appointed as the sole service provider in relation to the Designated Land of approximately 1,000 hectares in the First Forest.

- Reference is made to the Company's announcement on 26 March 2009 in relation to the Unauthorised Disposal. Unless otherwise defined herein, terms used in this result announcement shall have the same meanings as those defined in the announcement as referred.

  There is a potential dispute over the Company's ownership in a subsidiary, namely, Sinnowa Medical Science and Technology Co., Ltd. (the "Medical Equipment Subsidiary"), a medical equipment company incorporated in Nanjing, the PRC, of which the Company should own 65% equity interest. The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

  In light of the uncertainties and for the sake of prudence, the Board has made a full provision of approximately HK$15.65 million on the Medical Equipment Subsidiary in the consolidated financial statements for the year ended 31 December 2008.

  Moreover, owing to the degree of seriousness of the matter, on 26 March 2009, the Board resolved to establish a Special Investigation Committee for the purpose of, inter alia, (i) investigating the Unauthorised Disposal and (ii) reviewing the internal control procedures and corporate governance policies of the Company.

Because of the significance of the uncertainty about the outcome of the investigation of the Unauthorised Disposal, the independent auditor does not express an opinion on the consolidated financial statements.

- For the year ended 31 December 2008, earnings per share is 3.81 Hong Kong cents (2007: loss per share of 2.12 Hong Kong cents).

Business Review

On 8 July 2008, the Group completed the acquisition of the Second Forest located in Kratie Province, the Kingdom of Cambodia for an aggregate consideration of HK$270,000,000. Pursuant to which, 200,000,000 new Consideration Shares with a value of HK$120,000,000 (issued at HK$0.60 each) and Bonds with a principal amount of HK$70,000,000 were issued to the vendor, in addition to the cash consideration of HK$80,000,000.

The two forests in Cambodia have a total site area of approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. During the year, the Group completed most of the access roads and bridges to the two forests, as well as a sawn timber factory with an annual capacity of 10,000 cubic metres. Forest clearing began in the first half of 2008, and production of sawn timber from salvage logs, and cultivation of rubber tree and jatropha curcas plantations commenced in the second half of 2008.

I am pleased to report that permits for the domestic and export sale of wood products have been received from the Cambodian Government and revenue from the sale of wood products will start from 2009.

For the year ended 31 December 2008, the Medical Equipment Subsidiary had a turnover of approximately HK$47,692,000 and profit after taxation of approximately HK$6,655,000. As at 31 December 2008, the Group's carrying value of its 65% interest in the Medical Equipment Subsidiary was approximately HK$17,923,000.

The sale of medical equipments by the Medical Equipment Subsidiary made good progress during the year. Sales of medical equipment increased by 24.7% to HK$47,692,000 as compared to the previous year.

The Group decided to focus our pharmaceutical research and development efforts on a principal anti-cancer product. In March 2008, final application to commence Phase I clinical trials were submitted to the State Food and Drug Administration ("SFDA"). Due to the longer than expected time required to obtain approval to conduct clinical trials, the Board decided to take an impairment loss of HK$9,600,000 on the drug candidate.

The construction of the new pharmaceutical factory in Nanjing was completed and the factory passed GMP certification during the year. We will prepare applications to manufacture a number of generic drugs in 2009.

The Group's plantation development in Guilin suffered losses due to the heavy snow storms in southern China in first quarter 2008. The Board reassessed the plantation development plan and have decided to write off the remaining investment in the plantation, which resulted in an impairment loss of HK$93,000 for the year 2008.

Business Outlook

Following receipt of domestic and export wood product sale permits from the Cambodian Government, the Group plans to expand production of sawn timber and wood flooring materials quickly through manufacturing subcontractors. The first sawn timber and flooring material factory built by the subcontractors with an annual capacity of 15,000 cubic metres is expected to be ready for production in the second quarter of 2009. To facilitate the expected increase in sale of wood products, the Group plans to set up a sales office in Shanghai, the PRC. The Group expects to generate substantial wood product revenue from the second half of 2009.

As additional forest land is cleared, the Group will expand its rubber tree and jatropha curcas plantations, which are expected to generate sustainable income for the Group upon maturity.

The global financial turmoil and economic recession have restricted the fund raising options available to the Group. In light of this, the Board has reviewed the Group's portfolio of businesses and their development plans for the coming years. The Board has made a decision that it wishes to focus the Group's financial and management resources on developing its forestry, wood product manufacturing, and plantation businesses in Cambodia. Consistent with this strategy, the Group is looking to dispose of its existing medical equipment and pharmaceutical businesses in the PRC if an appropriate opportunity arises.

Acknowledgement

I hereby express my gratitude to all the directors for their contributions, and on behalf of the Board, I would like to extend my sincere appreciation to all the employees, customers, suppliers and business partners of the Group, as well as all the shareholders of the Company for your contributions and continued support.

Special thanks goes to the Company's ex-CEO, Mr. Li Wo Hing, who resigned for personal reasons on 18 June 2008. Mr. Li, had led the Company since it was first listed on the GEM board of the Hong Kong Stock Exchange in 2001 until his resignation last year.

Leung Sze Yuan, Alan
Chairman

26 March 2009

Management Discussion and Analysis

Financial Review

The Group's turnover for the year ended 31 December 2008 amounted to approximately HK$47,927,000, representing an increase of 24.7% as compared with the corresponding year in 2007. For the year ended 31 December 2008, the Group recorded a profit attributable to equity holders of the Company of approximately HK$68,665,000 (2007: loss of HK$21,989,000).

Other income for forestry exploitation business for the year ended 31 December 2008 amounted to approximately HK129,985,000. Included in this was service income of HK$78,000,000 (equivalent to US$10,000,000) recorded in connection with the signing of the exclusive services agreement with ELL. Also included was a gain of HK$51,985,000 from the Sub-concession of 10% of the First Forest.

Selling, distribution and administrative expenses for the year ended 31 December 2008 increased by 45.3% to HK$53,697,000 from HK$36,968,000 as compared with the previous year. The significant increase was primarily due to: (1) an increase in overheads associated with the Cambodian businesses of HK$8,542,000; (2) an increase in amortization expenses for the forest exploitation rights of HK$3,481,000; and (3) an increase in professional fees associated primarily with the acquisition of the First and Second Forest and the Sub-concession of the First Forest of HK$1,426,000.

An impairment loss of HK$9,600,000 was recognised for the anti-cancer drug candidate currently in pre-clinical development.

The basic earnings per share for the year ended 31 December 2008 was 3.81 Hong Kong cents (2007: loss per share 2.12 Hong Kong cents).

At 31 December 2008, the outstanding bank loan of the Group was HK$13,040,000 (2007: Nil).

Reference is made to the announcement of 26 March 2009 on Potential Dispute over the Group's ownership of the Medical Equipment Subsidiary. In light of the uncertainties of the potential dispute and in the interest of prudence, the Board has made a full provision of approximately HK$15.65 million for the Medical Equipment Subsidiary in the Group's consolidated financial statements for the year ended 31 December 2008.

Based on the Company's financial statements for the year ended 31 December 2008, the Medical Equipment Subsidiary recorded net profit after taxation of approximately HK$6.66 million, representing approximately 9.38% of the Group's consolidated net profit after taxation and full provision of the above-mentioned HK$15.65 million. As at 31 December 2008, the net asset value of the Medical Equipment Subsidiary attributable to the Company amounted to approximately HK$17.92 million, representing approximately 3.01% of the Group's consolidated net asset value. The management of the Company estimated that up to 31 December 2008, the Company's total investment in the Medical Equipment Subsidiary amounted to approximately HK$7.61 million.

Guaranteed profit of First Forest

For the year ended 31 December 2008, the net profit after tax and minority interests of the First Forest was approximately HK$123,000,000, which is equivalent to 72% of the guaranteed profit of HK$170,000,000 provided by the vendors of the First Forest when the Group acquired it from the vendors. As this is above the floor of 70% at which point the compensation mechanism kicks in, no compensation will accrue to the Group.

Capital Structure

As at 31 December 2008, the total number of issued ordinary shares and the issued share capital of the Company were 1,905,000,000 (2007: 1,705,000,000) and HK$19,050,000 (2007: HK$17,050,000) respectively. During the year, the Company increased its issued share capital by the allotment of 200,000,000 new Consideration Shares in connection with the acquisition of the Second Forest.

Capital Management

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

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness by equity attributable to equity holders of the Group. Total indebtedness includes bank overdrafts, bank loans, finance lease liabilities, bonds and other interest bearing securities. Equity attributable to equity holders comprising issued share capital, reserves and accumulated profits as disclosed in consolidated statement of changes in equity.

The Group's strategy was to maintain the gearing ratio within 100% which was consistent to that of prior years. In order to maintain the ratio, the Group will balance its overall capital structure through the payment of dividends, issue new shares, repurchase of shares, raise new debt financing or repayment of existing debts.

Our gearing ratio was 13.6% and 0% as at 31 December 2008 and 31 December 2007, respectively. The capital base was increased by HK$120,000,000 with share capital and share premium at HK$2,000,000 and HK$118,000,000 upon the completion of acquisition of the Second Forest in Cambodia on 8 July 2008. The increase in gearing ratio in the financial year under review was due to bank loans taken out by the Group to fund the completion of the new factory in Nanjing and the Bonds issued by the Group to fund the said acquisition during the year. Under the new banking facility, the Group was granted general banking facility of HK$7,937,000, payable on demand, with interest at 6.9% per annum as at 31 December 2008 so charged. Together with the existing facility granted by China Merchant Bank, both facilities are pledged by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$16,174,000 at 31 December 2008. The Bonds issued by the Group had a principal value of HK$70,000,000, 2% coupon per annum, payable on a semi-annual basis. The Bonds maturity date is 8 July 2010. Undrawn bank facility as at 31 December 2008 amounted is nil compared to HK$4,806,000 as at 31 December 2007.

The Board believes the existing gearing ratio of 13.6% is reasonable considering the cost of capital and the risks associated with each class of capital.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2008, the Group had total assets of approximately HK$755,645,000 (2007: HK$474,815,000) which were financed by current liabilities of approximately HK$81,088,000 (2007: HK$69,675,000), total equity of the Company of approximately HK$604,557,000 (2007: HK$405,140,000), and bonds of HK$70,000,000 (2007: Nil).

The current assets of the Group amounted to approximately HK$174,506,000 (2007: HK$159,435,000) of which approximately HK$48,414,000 (2007: HK$99,400,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK$81,088,000 (2007: HK$69,675,000) of which approximately HK$50,427,000 (2007: HK$69,391,000) were trade and other payables and HK$1,966,000 (2007: HK$284,000) was provision for income tax. There is outstanding bank loan of the Group of HK$13,040,000 at 31 December 2008 (2007: Nil). During the year, the Group negotiated new banking facility from 南京市區農村信用合作聯社 of HK$7,937,000, with an effective interest rate of 6.9% per annum as at 31 December 2008. The existing banking facility from China Merchant Bank of HK$5,103,000, payable on demand, with an effective interest rate of 7.3% as at year end date. Both facilities were secured by the Group's buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$16,173,000 at 31 December 2008.

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

The net assets value per share as at 31 December 2008 was HK$0.32 (2007: HK$0.24).

Capital Commitment, Significant Investments and Material Acquisitions and Disposals

During the year ended 31 December 2008, the Company acquired the entire share capital of Agri-Industrial Crop with the approval by shareholders in the SGM on 28 May 2008. Following completion of the acquisition of Agri-Industrial Crop, the Group increased its total concession area in Cambodia to approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. The Group is expected to receive the economic benefit derived from the initial clearing up of the forest area and the subsequent cultivation of rubber tree and jatropha caucas plantations during the 70-year concession period.

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

As at 31 December 2008, the Group had outstanding capital commitment of approximately HK$5,568,000 (2007: HK$13,693,000).

Risk Management

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

Credit risk

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

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

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

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

– reviewing the repayment of account receivable by aging analysis;

– monitoring the largest exposures by customers;

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

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

Liquidity risk

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

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

Market risk

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

Foreign exchange risk

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

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

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

As at 31 December 2008, the Group had no outstanding hedging instruments (2007: HK$Nil).

Interest rate risk

The Group's interest rate risk arises primarily from bank loans chargeable at variable rates that expose the company to uncertainty on interest expenses and bond chargeable at fixed rate that provide a comfortable zone in controlling the overall interest expenses. The Group's policy is to minimize the borrowings at variable interest rates in the interest rate profile.

Equity risk

The Group's equities exposure was mainly in long-term equity investments which are reported as investment in subsidiaries set out in note 36 to the financial statements. All equities held are more than 50% with controlling interest and are for long term investment. They are not subject to volatility arises from short term fluctuation.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or form external events. It is inherent to every business organization and covers a wide spectrum of issues. The terms 'error', 'omission' and 'inefficiency' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance level as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

Reference is made to the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership, 65% interest in Sinnowa Medical Science and Technology Co., Ltd. (南京神州英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary").

Employees' information and benefit scheme for the employees

As at 31 December 2008, the Group has 324 (2007: 227) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2008 and 2007 were approximately HK$18,197,000 and HK$11,327,000 respectively.

On 31 March 2008, the Company granted Share Options for 36,000,000 shares to employees of the Group at an exercise price of HK$0.21 per share during the period from 31 March 2010 to 31 March 2012 under its Share Option Scheme. The total share options granted included 18,000,000 to two directors, Mr. Leung Sze Yuan, Alan and Mr. Zhang Zhenzhong.

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

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

Contingent Liabilities

As at 31 December 2008, the Group and the Company did not have any material outstanding contingent liabilities.

Business Review

Forestry, wood product manufacturing and plantation

The two forests in Cambodia have a total site area of approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. During the year, the Group completed most of the access roads measuring in excess of 150 kilometres, drainage systems, and river bridges of the two forests, as well as a sawn timber factory with an annual capacity of 10,000 cubic metres.

Forest clearing began in the first half of 2008 and over 300 hectares were cleared in 2008. We established a timber yard measuring 120 hectares and have in storage logs in excess of 5,000 cubic metres as at year end. Production of sawn timber from salvage logs began in the second half of 2008.

Cultivation of rubber tree and jatropha curcas plantations commenced in the second half of 2008. As at year end, we have planted 5,500 rubber trees and 1,800 jatropha curcas plants.

We signed an exclusive services agreement with ELL in November 2008 to provide services including the logging of trees, processing of logs into wood products, and the selling of such wood products on a designated piece of land measuring approximately 1,000 hectares in the First Forest. This will speed up the tree logging and the development pace of forest exploitation.

I am pleased to report that permits for the domestic and export sale of wood products have been received from the Cambodian Government and revenue from the sale of wood products will start from 2009.

Development of the market and application of RFAS in the PRC

The Group's RFAS radio frequency treatment business experienced a reduction in revenue as the number of co-operation contracts with the PRC hospitals declined.

Manufacturing and sales of medical equipment

The sales of medical equipment made good progress during the year. Sales of medical equipment increased by 24.7% to HK$47,692,000 as compared to the previous year.

There is a potential dispute over the Company's ownership in the Medical Equipment Subsidiary, which should be a 65% subsidiary of the Company. The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish the Special Investigation Committee for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Group.

Research, development and sales of drugs

The Group decided to focus our pharmaceutical research and development efforts on a principal anti-cancer product. In March 2008, final application to commence Phase I clinical trials were submitted to the SFDA. In July 2008, the SFDA experts' panel discussed the Group's application, and final determination is expected in first half 2009.

Manufacturing and sales of drugs and medicines

The construction of the new pharmaceutical factory in Nanjing was completed and the factory passed GMP certification during the year. We will prepare applications to manufacture a number of generic drugs in 2009.

Plantation development in Guilin

The Group's plantation development in Guilin suffered losses due to the heavy snow storms in southern China in first quarter 2008. The Board reassessed the plantation development plan and have decided to write off the remaining investment in the plantation. The Group has leased out unutilised farm land to local farmers.

Outlook

The Group plans to increase the pace of development of its forestry, wood manufacturing and plantation businesses in Cambodia. We plan to begin production of sawn timber and wood flooring materials in significant volume in 2009 through manufacturing subcontractors. The first sawn timber and flooring material factory built by subcontractors with an annual capacity of 15,000 cubic metres is expected to be ready for production in the second quarter of 2009. To facilitate the expected increase in sale of wood products, the Group plans to set up a sales office in Shanghai, the PRC. The Group expects to generate substantial wood product revenue from the second half of 2009.

As additional forest land is cleared, the Group will expand its rubber tree and jatropha curcas plantations, which are expected to generate sustainable income for the Group upon maturity.

The global financial turmoil and economic recession have restricted the fund raising options available to the Group. In light of this, the Board has reviewed the Group's portfolio of businesses and their development plans for the coming years. The Board has made a decision that it wishes to focus the Group's financial and management resources on developing its businesses in Cambodia. Consistent with this strategy, the Group is looking to dispose of its existing medical equipment and pharmaceutical businesses in the PRC if an appropriate opportunity arises.

Directors and Senior Executives

Directors

Executive directors

Mr. Leung Sze Yuan, Alan, aged 40, is an Executive Director and Chairman of the Company, and is responsible for the overall strategic development, financial management and investor relationship of the Group. Mr. Leung is a member of the Institute of Chartered Accountant in Australia and the Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in commerce from the University of New South Wales, Australia and a master degree in business administration from the Chinese University of Hong Kong. Before joining the Company in 2007, Mr. Leung was an Associate Director of AIG Investment Corporation responsible for private equity investments in Asia. Mr. Leung was appointed a Director of the Company on 23 May 2008.

Mr. Zhang Zhenzhong, aged 62, is an Executive Director and Chief Executive Officer of the Company, and is responsible for the day-to-day management of the Group's businesses in Cambodia. Mr. Zhang has extensive business experience in Cambodia, including export of timber products from Cambodia and import of equipment and machinery into Cambodia, and together with his management team, have substantial experience in managing forestry business including rubber plantation, timber logging, the transportation and trading of timber products, financial management and business planning, as well as factory management. Mr. Zhang was appointed a Director of the Company on 23 May 2008.

Non-executive directors

Dr. Li Nga Kuk, James, aged 63, is a Non-Executive Director. Dr. Li graduated from 中國上海第二醫學院 in 1970. He was granted medical doctor's licenses in Hong Kong and doctor qualification in US in 1981 and 1987 respectively and worked as a medical doctor in the PRC and Hong Kong during 1975 to 1985. Dr. Li was appointed a Director of the Company on 7 September 2001.

Mr. Li Tai To, Titus, aged 69, is a Non-Executive Director. Mr. Li graduated from 中國上海第一醫學院 and has obtained a medical diploma in Taiwan. He was a surgeon in 浙江嘉興第二醫學院 (Zhenjian Jiaxing No. 2 Hospital). Mr. Li is the elder brother of Dr. Li Nga Kuk, James, a Non-Executive Director of the Company. Mr. Li was appointed a Director of the Company on 7 September 2001.

Independent non-executive directors

Mr. Fan Wan Tat, aged 64, is an Independent Non-Executive Director. Mr. Fan is a medical doctor in Hong Kong. Mr. Fan was appointed on 10 December 2001.

Mr. Tam Wai Leung, Joseph, aged 43, is an Independent Non-Executive Director. Mr. Tam is the President to the Executive Committee of the Hong Kong Institute of Business Management Limited. He holds a Doctor of philosophy degree from Preston University, USA. Mr. Tam was appointed on 30 September 2004.

Mr. Chan Kim Chung, Daniel, aged 45, is an Independent Non-Executive Director. Mr. Chan is the General Manager of Royal Media Limited that is specialized in the provision of consultancy services in software testing and quality assessment. He holds a doctor of philosophy degree in computer science from the University of Glasgow, United Kingdom. Mr. Chan was appointed on 16 June 2006.

Senior Management

Mr. Zhang Xiaoguang, aged 54, the Deputy General Manager of (Cambodia) Tong Min, is responsible for the wood flooring manufacturing operations. Mr. Zhang holds a bachelor degree in automation system from Shanghai Second Polytechnic University and a master degree of business administration from Macau Open University. Before joining the company, Mr. Zhang was the Deputy General Manager of Shanghai Nanyang Veneer Company Limited, a subsidiary of the Shanghai Industrial Group. Mr. Zhang joined the Group in October 2007.

Mr. Shu Jianhua, aged 46, the Deputy General Manager of (Cambodia) Tong Min, is responsible for field operations in the forest and the sales and marketing of timber. Mr. Shu graduated from Shanghai Normal University. After graduation, he was a lecturer at the Shanghai Normal University and the East China Normal University. Before joining the company, Mr. Shu held a number of senior management positions in various import and export industries. Mr. Shu was actively engaged in sports management as a senior manager of Shanghai Football Association and the Shanghai Shenhua Foorball Club. Mr. Shu joined the Group in October 2007.

Ms. Guo Ping, aged 49, is the General Manager of China Best Drug, a subsidiary of the Company. Ms. Guo is a recognized research analyst of medicine in the PRC. She joined the Group in December 2002.

Ms. Lai Tin Yin, Fion, aged 46, joined the Group in September 2007 as the Company Secretary and Qualified Accountant of the Company. Ms. Lai holds a master of business administration degree from the City University of Hong Kong. She is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Chartered Secretaries. She has over 10 years experience in auditing and accounting fields by working for a firm of certified public accountants and several private companies.

Report of the Directors

The directors submit herewith their annual report together with the audited financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company is investment holding and historically the Group has principally been engaged in the provision of medical equipment services and related accessories, the provision of medical research and development services and the sales of medical equipment in the PRC. Through the acquisition of subsidiaries in last and current year, the Group expanded into the natural resources business in the Kingdom of Cambodia ("Cambodia"). The Group holds 70-year economic land concessions measuring close to 20,000 hectares with timber reserve of approximately 5 million cubic metres.

The principal activities and other particulars of its subsidiaries are set out in note 36 to the financial statements.

Segment Information

An analysis of the Group's revenue and results by business segments and geographical locations of the Company and its subsidiaries during the financial year are set out in note 7 to the financial statements.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 98 of the annual report.

Major Customers and Suppliers

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	4%	
Five largest customers in aggregate	11%	
The largest supplier		11%
Five largest suppliers in aggregate		38%

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

Financial Statements

The result of the Group for the year ended 31 December 2008 and the state of the Group's affairs as at that date are set out in the financial statements on pages 36 to 97.

Dividends

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

Charitable Donations

During the year, the Group made charitable contributions totalling HK$2,351,000 (2007: HK$1,326,000).

Property, Plant and Equipment

Details of movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

Bonds and Convertible Bonds

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

Bank Borrowings

Particulars of bank borrowings as at 31 December 2008 are set out in note 26 to the financial statements.

Application of Share Issue Proceeds

During the year ended 31 December 2008, the Company has issued the following shares:

	Date of issue	No. of shares	Share issue price
Consideration Shares	8 June 2008	200,000,000	HK$0.60

The aggregate net share issue proceeds, net of related expenses, of approximately HK$120 million, has substantially been used for the acquisition of the entire equity interest of Agri-Industrial Crop, and the further expansion of forest exploitation business in Cambodia.

Directors

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

Executive directors

Mr. Leung Sze Yuan, Alan *(Chairman) (appointed on 23 May 2008)*
Mr. Zhang Zhenzhong *(Chief Executive Officer) (appointed on 23 May 2008)*
Mr. Li Wo Hing *(resigned on 18 June 2008)*

Non-executive directors

Mr. Li Nga Kuk, James *(re-designation on 25 June 2008)*
Mr. Li Tai To, Titus *(re-designation on 25 June 2008)*
Mr. Chen Minshan *(resigned on 13 June 2008)*

Independent non-executive directors

Mr. Fan Wan Tat *(appointed on 1 December 2001)*
Mr. Tam Wai Leung, Joseph *(appointed on 30 September 2004)*
Mr. Chan Kim Chung, Daniel *(appointed on 16 June 2006)*

Pursuant to the Bye-Laws of the Company, Messrs. Li Tai To, Titus, Fan Wan Tat and Chan Kim Chung, Daniel will retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The biographical details of the Directors are set out on pages 15 to 16.

Directors' Service Contracts

On 18 June 2008, Mr. Li Wo Hing resigned as Executive Director. On 25 June 2008, two Executive Directors Messrs. Li Nga Kuk, James and Li Tai To were re-designated as Non-Executive Directors with their initial services contract entered on 14 December 2001, renewable every three years. On 23 May 2008, Messrs. Leung Sze Yuan, Alan and Zhang Zhenzhong were appointed Executive Directors and entered into services contracts, renewable every three years. Messrs. Leung Sze Yuan, Alan and Zhang Zhenzhong were subsequently appointed as Chairman and Chief Executive Officer of the Group on 25 June 2008 and 18 June 2008 respectively. The Executive Directors are committed by the respective service contracts to devote themselves exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments.

On 13 June 2008, Mr. Chen Minshan resigned as Non-Executive Director. The Non-Executive Directors have entered into a service contract with the Company. The service contract of Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel were renewed for a term of one year commencing on 1 December 2008, 30 September 2008 and 16 June 2008, respectively.

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

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

As at 31 December 2008, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name	Number of ordinary shares of HK$0.01 each in the share capital of the Company held	Nature of interests	Percentage of interest
Mr. Leung Sze Yuan, Alan	39,000,000	Personal	2.94%
	17,000,000	Share Option granted but not yet exercised	
Mr. Zhang Zhenzhong	17,000,000	Share Option granted but not yet exercised	0.89%
Dr. Li Nga Kuk, James	32,800,000	Personal	1.72%
Mr. Li Tai To, Titus	16,400,000	Personal	0.86%

Save as disclosed above, as at 31 December 2008, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by Directors, to be notified to the Company and the Stock Exchange.

Share Option Scheme

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

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

Pursuant to a resolution passed at a meeting of all Independent Non-Executive Directors on 31 March 2008, the Group granted share option of 36,000,000 shares to Directors and employees of the Group under the Share Option Scheme. As at 31 December 2008, no share option was exercised.

Details of movements in share options of the Company during the year are set out in note 31 to the financial statements.

Directors' Rights to Acquire Shares or Debt Securities

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

Save as disclosed above, as at 31 December 2008, no other Directors or the Chief Executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or the Chief Executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Interests Discloseable under the SFO and Substantial Shareholders

At 31 December 2008, so far as is known to any of the Directors or the Chief Executive of the Company, the following persons (other than a Director or the Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of substantial shareholder	Number of shares held	Capacity	Percentage of interest
Li Wo Hing	37,470,000	Personal	1.96%
	193,360,000	Corporate (Note)	10.15%
	230,830,000		12.11%
Zhang Jie	222,666,667	Personal	11.68%
Greatest Luck International Limited	200,000,000	Beneficial owner	10.49%
PMM (Note)	193,360,000	Beneficial owner	10.15%
Pen Sophal	107,333,333	Personal	5.63%

Note: As at 30 December 2008, PMM owned 193,360,000 shares, representing approximately 10.15% of the issued share capital of the Company. The issued share capital of PMM is owned as to 70.58% by Mr. Li Wo Hing, as to 19.61% by Dr. Li Nga Kuk, James, as to 9.81% by Mr. Li Tai To, Titus. Accordingly, Mr. Li Wo Hing holds indirect interest in the 193,360,000 shares through PMM.

Save as disclosed above, as at 31 December 2008, so far as is known to any of the Directors or the Chief Executive of the Company, no other person (other than a Director or the Chief Executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors of the Company had a material interest, either directly or indirectly, subsisted at end of the year or during the year ended 31 December 2008.

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

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Competing Interests

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

Pre-emptive Rights

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

Pension Schemes

Details of the Group's pension scheme for the year ended 31 December 2008 are set out in note 30 to the financial statements.

Code on Corporate Governance Practices

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

In the opinion of the Board, the Company has complied with the Code and adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the year ended 31 December 2008. Having made specific enquiry of all Directors of the Company, the Company's Directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the year ended 31 December 2008.

Sufficiency of Public Float

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

Independence Confirmation

The Company has received, from each Independent Non-Executive Director, an annual confirmation of independence pursuant to the GEM Listing Rules. The Board considers all the Independent Non-Executive Directors are independent.

Audit Committee

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

The Audit Committee comprises the three Independent Non-Executive Directors, namely, Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel, and has held 4 meetings during the year under review.

The Audit Committee has reviewed the Company's audited annual report for the year ended 31 December 2008 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Auditor

KLC Kennic Lui & Co. Ltd. (formerly known as Kennic L.H. Lui & Co. Ltd.) were first appointed as auditor of the Company in 2005.

KLC Kennic Lui & Co. Ltd. were engaged to audit the financial statements for the year ended 31 December 2008. KLC Kennic Lui & Co. Ltd. will retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KLC Kennic Lui & Co. Ltd. as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Leung Sze Yuan, Alan
Chairman

Hong Kong, 26 March 2009

Corporate Governance Report

The Board of Directors (the "Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

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

In the opinion of the Directors, the Company has complied with the provisions as set out in the Code on Corporate Governance Practice (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited for the financial year ended 31 December 2008.

Directors' Securities Transactions

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealing in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2008.

The Board of Directors

Board composition

The Board currently comprises seven Directors, of whom two are executive Directors, two are non-executive Directors and three are independent non-executive Directors.

The Board members for the year ended 31 December 2008 and up to the date of this report were:

Executive Directors
Mr. Leung Sze Yuan, Alan *(Chairman) (appointed on 23 May 2008)*
Mr. Zhang Zhenzhong *(Chief Executive Officer) (appointed on 23 May 2008)*
Mr. Li Wo Hing *(resigned on 18 June 2008)*

Non-executive Directors
Mr. Li Nga Kuk, James *(re-designation on 25 June 2008)*
Mr. Li Tai To, Titus *(re-designation on 25 June 2008)*
Mr. Chen Minshan *(resigned on 13 June 2008)*

Independent Non-executive Directors
Mr. Fan Wan Tat *(appointed on 1 December 2001)*
Mr. Tam Wai Leung, Joseph *(appointed on 30 September 2004)*
Mr. Chan Kim Chung, Daniel *(appointed on 16 June 2006)*

The directors' biographical information are set out on pages 15 to 16 of this Annual Report. All executive Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. The two non-executive directors, Mr. Li Nga Kuk James and Mr. Li Tai To Titus are brothers, Save as disclosed, there is no family or other material relationship among members of the Board.

Board meetings

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

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

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

	Members' Attendance
Executive Directors	
Mr. Leung Sze Yuan, Alan	2/2
Mr. Zhang Zhenzhong	2/2
Mr. Li Wo Hing *(resigned)*	1/2
Non-executive Directors	
Mr. Li Nga Kuk, James	1/4
Mr. Li Tai To, Titus	4/4
Mr. Chen Minshan *(resigned)*	0/4
Independent Non-executive Directors	
Mr. Fan Wan Tat	3/4
Mr. Tam Wai Leung, Joseph	3/4
Mr. Chan Kim Chung, Daniel	3/4

Chairman and Chief Executive Officer

The roles of the Chairman, Mr. Leung Sze Yuan, Alan and the Chief Executive Officer ("CEO"), Mr. Zhang Zhenzhong are segregated. This segregation ensures a clear distinction between the Chairman's and CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability. There is no financial, business, family or other relationship between the Chairman and the CEO.

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

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

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

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

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

Non-executive directors

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

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

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

Term of appointment and re-election

All directors, including the executive and non-executive directors, are appointed for a term of one year and renewed with the board approval. All directors would retire from office by rotation and are subject to re-election at annual general meeting once every three years. Pursuant to the Bye-Laws of the Company, Messrs. Li Tai To, Titus, Fan Wan Tat, and Chan Kim Chung, Daniel will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Remuneration Committee

The Remuneration Committee was established in 2005 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee is made available on request. On 26 March 2009, the Remuneration Committee comprises three members, the Chairman of the committee is Mr. Fan Wan Tat, an independent non-executive director of the Company, and other members include Mr. Tam Wai Leung, Joseph and Mr. Leung Sze Yuan, Alan, the majority also being independent non-executive directors of the Company.

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

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

	Members' Attendance
Executive Director	
Mr. Leung Sze Yuan, Alan	1/1
Independent Non-executive Directors	
Fan Wan Tat	1/1
Tam Wai Leung, Joseph	1/1

Nomination Committee

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

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

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

The Nomination Committee held a meeting on 26 March 2009 to review the structure, size and composition of the Company's Board of Directors. Mr. Tam Wai Leung, Joseph, Mr. Fan Wan Tat and Mr. Leung Sze Yuan, Alan attended this meeting. Given the expansion of business operation in Cambodia, the Nomination Committee recommended new members with expertise in forestry, wood products business and financial management to be appointed in the near term. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications, experience and background of the relevant candidates for determining the suitability to the Group.

	Members' Attendance
Executive Director	
Mr. Leung Sze Yuan, Alan	1/1
Independent Non-executive Directors	
Mr. Fan Wan Tat	1/1
Mr. Tam Wai Leung, Joseph	1/1

Audit Committee

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

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

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

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

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Audit Committee met four times to review the quarterly and annual results of the Group during the year ended 31 December 2008, which were attended by majority of members. Full minutes of the Audit Committee are kept by the Company Secretary.

	Members' Attendance
Executive Directors	
Mr. Leung Sze Yuan, Alan	2/2
Mr. Zhang Zhenzhong	2/2
Mr. Li Wo Hing *(resigned)*	1/2
Non-executive Directors	
Mr. Li Nga Kuk, James	1/4
Mr. Li Tai To, Titus	4/4
Mr. Chen Minshan *(resigned)*	0/4
Independent Non-executive Directors	
Mr. Fan Wan Tat	3/4
Mr. Tam Wai Leung, Joseph	3/4
Mr. Chan Kim Chung, Daniel	3/4

Auditor's Remuneration

As at 31 December 2008, the fees payable to the auditor in respect of the audit and non-audit services provided by the auditor are as follows:

Type of services	**Amount** (HK$'000)
Audit services	1,200
Non-audit services	409

Internal Control

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing such systems' effectiveness.

As per the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership, 65% interest in Sinnowa Medical Science and Technology Co., Ltd. (南京神州英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary"). The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish a special investigation committee (the "Special Investigation Committee") (comprising Mr. Leung Sze Yuan, Alan, an executive director, Mr. Tam Wai Leung, Joseph, an independent non-executive director, and Mr. Chan Kim Chung, Daniel, an independent non-executive director) for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Company. The Special Investigation Committee is authorized to appoint independent professional advisers (including but not limited to accountants, legal advisers) to assist in the course of its investigation and internal review, and will report to the Board its findings as soon as practicable. As at the date of this report, the Special Investigation Committee intends to appoint Synthesis Consultancy Limited, an independent consultancy company, to conduct a review on its internal control system of all relevant financial, operational, compliance controls and risk management functions.

Delegation by the Board

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

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

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

Investor Relations and Shareholders' Right

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

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

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

Independent Auditor's Report

呂禮恒會計師事務所有限公司
KLC Kennic Lui & Co.Ltd.
Certified Public Accountants (Practising)

To the shareholders of
China Asean Resources Limited
(Incorporated in Bermuda with limited liability)

Report on the Financial Statements

We were engaged to audit the consolidated financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 97, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

As detailed in note 2 to the consolidated financial statements, the Group's 65% equity interest in Sinnowa Medical Science and Technology Co. Ltd. (the "Medical Equipment Subsidiary") which is engaged in the manufacture and sale of medical equipment, was transferred to the minority shareholder of Medical Equipment Subsidiary and a third party without the consent and approval of the board of directors of the Company (the "Board"). The Company has been consulting PRC lawyers as to the appropriate action to take to protect its interest in Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% equity owner of Medical Equipment Subsidiary. Up to the date of this report, the PRC lawyers have been unable to form a view as to whether the transfer of the Group's 65% equity interest in Medical Equipment Subsidiary is valid under PRC law and/or whether the Group will be able to recover its ownership interest.

The Board resolved on 26 March 2009 to establish a special investigation committee for the purpose of, among others, investigating the matters related to this potential dispute as to the Company's ownership in Medical Equipment Subsidiary. In the opinion of the directors of the Company, the transfer of the Group's 65% equity interest in Medical Equipment Subsidiary should be void under PRC law and the Company is deemed to have effective control over Medical Equipment Subsidiary throughout the current and prior years when it was the 65% equity owner of Medical Equipment Subsidiary. Accordingly, the Board considers it is appropriate to include the following balances relating to Medical Equipment Subsidiary in the consolidated financial statements of the Company:

	2008 **HK$'000**	2007 HK$'000
Income and expenses:		
Turnover	**47,692**	38,243
Cost of sales	**(20,925)**	(18,405)
Other income	**5,283**	1,158
Selling and distribution expenses	**(13,282)**	(11,596)
Administrative expenses	**(7,752)**	(7,939)
Other operating expenses	**(2,559)**	(1,339)
Finance costs	**(302)**	(155)
Taxation	**(1,500)**	–
Minority interests	**(2,330)**	(91)
Profit/(loss) attributable to the Group	**4,325**	(124)
Assets and liabilities:		
Property, plant and equipment	**16,339**	6,642
Construction in progress	**–**	6,704
Prepaid lease payments	**1,132**	1,109
Intangible assets	**763**	1,097
Inventories	**12,452**	5,959
Trade and other receivables	**14,716**	6,700
Cash at bank and on hand	**9,775**	3,066
Amount due from/(to) minority interest	**5,840**	(2,335)
Trade and other payables	**(18,738)**	(9,497)
Bank borrowings	**(13,040)**	–
Taxation	**(1,665)**	–
Minority interests	**(9,651)**	(6,875)
Net assets attributable to the Group	**17,923**	12,570

Basis for disclaimer of opinion *(Continued)*

In view of the significance of the uncertainty about the outcome of the investigation, we were unable to satisfy ourselves as to whether the inclusion of the above financial information of Medical Equipment Subsidiary in the consolidated financial statements of the Group is in accordance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements". We were also unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the provision for a potential loss of control of a subsidiary amounting to HK$15,655,000 in relation to the potential dispute is a reliable estimate of the financial impact to the Group as at 31 December 2008 and in accordance with the requirements of Hong Kong Accounting Standard 37 "Provision, Contingent Liabilities and Contingent Assets". There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the abovementioned matters. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Any adjustment to these figures may have a consequential significant effect on the state of affairs of the Group as at 31 December 2008 and profit for the year then ended.

Disclaimer of opinion: Disclaimer on view given by consolidated financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong, 26 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	6	**47,927**	38,443
Cost of sales		**(21,836)**	(18,789)
Gross profit		**26,091**	19,654
Income from forestry exploitation business	8	**129,985**	–
Other income	9	**6,755**	4,114
Selling and distribution costs		**(13,421)**	(11,790)
Administrative expenses		**(40,276)**	(25,178)
Impairment loss recognised in respect of:			
Biological assets	16	**(93)**	(6,785)
Intangible assets	19	**(9,600)**	–
Other operating expenses	10	**(10,319)**	(1,645)
Provision for a potential loss of control of a subsidiary	25	**(15,655)**	–
Finance costs	10	**(972)**	(244)
Profit/(loss) before taxation	10	**72,495**	(21,874)
Taxation	11	**(1,500)**	(24)
Profit/(loss) for the year		**70,995**	(21,898)
Attributable to:			
Equity holders of the Company		**68,665**	(21,989)
Minority interests		**2,330**	91
		70,995	(21,898)
Earnings/(loss) per share (Hong Kong cents)	14		
Basic		**3.81**	(2.12)
Diluted		**3.81**	N/A

The notes on pages 42 to 97 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	15	**30,385**	7,379
Biological assets	16	**–**	88
Construction in progress	17	**31,950**	18,189
Prepaid lease payments	18	**2,585**	2,563
Intangible assets	19		
Forest exploitation rights		**498,063**	259,203
Medical research project		**17,393**	26,860
Others		**763**	1,098
		581,139	315,380
Current assets			
Inventories	21	**13,575**	6,019
Trade and other receivables	22	**112,517**	54,016
Cash at bank and on hand	23	**48,414**	99,400
		174,506	159,435
Current liabilities			
Trade and other payables	24	**50,427**	69,391
Provision for a potential loss of control of a subsidiary	25	**15,655**	–
Bank borrowings	26	**13,040**	–
Taxation		**1,966**	284
		81,088	69,675
Net current assets		**93,418**	89,760
Total assets less current liabilities		**674,557**	405,140
Non-current liabilities			
Bonds	27	**70,000**	–
Net assets		**604,557**	405,140
Capital and reserves			
Share capital	28	**19,050**	17,050
Reserves		**575,856**	381,215
Total equity attributable to:			
Equity holders of the Company		**594,906**	398,265
Minority interests		**9,651**	6,875
Total equity		**604,557**	405,140

Approved and authorised for issue by the Board of Directors on 26 March 2009.

Leung Sze Yuan, Alan	**Zhang Zhenzhong**
Chairman	*Director*

The notes on pages 42 to 97 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital	Share premium	Contributed surplus	Share options reserve	Exchange reserve	Retained profits/ (Accumulated losses)	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	8,350	70,733	5,265	–	6,068	4,004	94,420	6,339	100,759
Exchange difference arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	6,209	–	6,209	445	6,654
Loss for the year	–	–	–	–	–	(21,989)	(21,989)	91	(21,898)
Total recognised income and expense for the year	–	–	–	–	6,209	(21,989)	(15,780)	536	(15,244)
Recognition of equity-settled share based payments	–	–	–	1,875	–	–	1,875	–	1,875
Issue of shares	4,000	71,200	–	–	–	–	75,200	–	75,200
Conversion of shares	700	12,460	–	–	–	–	13,160	–	13,160
New shares placement	1,670	113,560	–	–	–	–	115,230	–	115,230
Top-up placement	2,330	121,160	–	–	–	–	123,490	–	123,490
Transaction cost attributable to issue of shares	–	(9,330)	–	–	–	–	(9,330)	–	(9,330)
At 31 December 2007	17,050	379,783	5,265	1,875	12,277	(17,985)	398,265	6,875	405,140

The notes on pages 42 to 97 form part of these financial statements.

	Attributable to equity holders of the Company								
	Share capital	Share premium	Contributed surplus	Share options reserve	Exchange reserve	Retained profits/ (Accumulated losses)	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	17,050	379,783	5,265	1,875	12,277	(17,985)	398,265	6,875	405,140
Exchange difference arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	3,528	–	3,528	446	3,974
Profit for the year	–	–	–	–	–	68,665	68,665	2,330	70,995
Total recognised income and expense for the year	–	–	–	–	3,528	68,665	72,193	2,776	74,969
Recognition of equity-settled share based payments	–	–	–	4,448	–	–	4,448	–	4,448
Issue of shares	2,000	118,000	–	–	–	–	120,000	–	120,000
Lapse of share options	–	–	–	(188)	–	188	–	–	–
At 31 December 2008	**19,050**	**497,783**	**5,265**	**6,135**	**15,805**	**50,868**	**594,906**	**9,651**	**604,557**

The notes on pages 42 to 97 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Profit/(Loss) before taxation		**72,495**	(21,874)
Adjustments for:			
Depreciation		**1,432**	1,044
Loss on disposal of property, plant and equipment		**19**	–
Income from sub-concession of 10% of forest exploitation rights		**(51,985)**	–
Impairment losses recognised in respect of:			
Biological assets		**93**	6,785
Medical projects		**9,600**	–
Amortisation of prepaid lease payments		**135**	123
Amortisation of intangible assets:			
Forest exploitation rights		**7,332**	3,757
Others		**398**	364
Share based payments		**4,448**	1,875
Bad debts written off		**1,790**	1,088
Bad debts recovered		**(3,246)**	(272)
Bank interest income		**(611)**	(2,279)
Provision for a potential loss of control of a subsidiary		**15,655**	–
Finance costs		**972**	244
Write-back of accrued expenses		**(787)**	–
Operating profit/(loss) before changes in working capital		**57,740**	(9,145)
Increase in inventories		**(7,184)**	(1,651)
Increase in trade and other receivables		**(22,507)**	(41,268)
Increase/(decrease) in trade and other payables		**(23,135)**	9,508
Cash generated from/(used in) operations		**4,914**	(42,556)
Income tax paid outside Hong Kong		**164**	–
Net cash from/(used in) operating activities		**5,078**	(42,556)
Cash flows from investing activities			
Capital expenditure:			
Property, plant and equipment		**(16,903)**	(447)
Construction in progress		**(19,755)**	(8,764)
Biological assets		**–**	(4,534)
Acquisition of a subsidiary	20	**(80,000)**	(50,000)
Forest exploitation rights		**(2,207)**	(27,300)
Proceed from 10% Sub-Concession		**46,800**	–
Decrease in placement of deposits with banks		**–**	62,153
Interest received		**611**	2,279
Net cash used in investing activities		**(71,454)**	(26,613)

The notes on pages 42 to 97 form part of these financial statements.

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from financing activities			
Interest paid		**(302)**	(244)
New share placement		**–**	115,890
Top-up placement		**–**	122,830
Redemption of bonds		**–**	(70,000)
Shares issue expenses		**–**	(9,330)
Proceeds from new bank borrowings		**13,040**	–
Repayment of bank borrowings		**–**	(3,484)
Net cash from financing activities		**12,738**	155,662
Net increase/(decrease) in cash and cash equivalents		**(53,638)**	86,493
Cash and cash equivalents at beginning of the year		**99,400**	12,029
Effect of foreign exchange rate changes		**2,652**	878
Cash and cash equivalents at end of the year		**48,414**	99,400
Analysis of cash and cash equivalents:			
Cash at bank and on hand		**48,414**	99,400

The notes on pages 42 to 97 form part of these financial statements.

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars which is also the functional currency of the Company. The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 36 to the consolidated financial statements.

2. Basis of Preparation of the Financial Statements

Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary")

As detailed in the announcement of the Company dated 26 March 2009, Medical Equipment Subsidiary is a 65% owned subsidiary of the Company established in September 2002 as a sino-foreign joint venture enterprise in the People's Republic of China (the "PRC"). Medical Equipment Subsidiary engages in the business of manufacture and sale of medical equipment. The remaining 35% equity interest of Medical Equipment Subsidiary is owned by a PRC company called Innova Science & Technology Co., Ltd. (南京英諾華科技有限公司) (the "Chinese Partner"). During the course of external audit of the consolidated financial statements for the year ended 31 December 2008, the Company discovered that the official records of the PRC governmental authorities on the shareholdings of Medical Equipment Subsidiary had been amended without the knowledge of the Company, and that the Company was no longer recorded as an equity owner of the Medical Equipment Subsidiary since 10 December 2007.

Under this circumstance, the Board had, through its Chinese legal advisers, made enquiries with the Bureau of Administration of Industry and Commerce in Nanjing, Jiangsu Province (江蘇省南京市工商行政管理局) ("Nanjing BAIC") and discovered that two unauthorised sale and purchase agreements (the "Unauthorised Sale and Purchase Agreements"), both dated 10 November 2007, were entered into in the name of the Company and executed by a Director, pursuant to which the Company agreed to dispose of its entire 65% equity interest in the Medical Equipment Subsidiary as to 30% to the Chinese Partner and as to 35% to the First New Shareholder, at a consideration of RMB14.00 million (equivalent to approximately HK$15.88 million) and RMB1.00 million (equivalent to approximately HK$1.13 million), respectively. The Unauthorised Sale and Purchase Agreements were duly registered with Nanjing BAIC to the effect that the Medical Equipment Subsidiary was owned as to 65% by the Chinese Partner and as to the remaining 35% by the First New Shareholder. The Director, whose signature was imprinted on the Unauthorised Sale and Purchase Agreements, has confirmed to the Board that he had no knowledge about the Unauthorised Disposal and he had never executed such agreements for and on behalf of the Company.

2. Basis of Preparation of the Financial Statements *(Continued)*

Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary") *(Continued)*

Despite the allegations of the Chinese Partner that the consideration stated in the Unauthorised Sale and Purchase Agreements had been fully settled by means of cash and telegraphic transfer, the Group reports only having received a sum of RMB2,000,000 from the Chinese Partner after checking all prior transactions in its bank accounts and accounting records. Since the Board was not aware of the Unauthorised Sale and Purchase Agreements, the Company recorded the said sum of RMB2,000,000 as a general advance from the Chinese Partner and it is classified as an amount due to minority interests in the consolidated balance sheet as at 31 December 2008.

Also, from the official records of the PRC government, the registered capital of Medical Equipment Subsidiary is reported to have been increased to RMB30,000,000 since late 2008, and the current shareholders of the Medical Equipment Subsidiary are the Chinese Partner (holding 62% of the equity interest), Great Profit Enterprises Limited, a company incorporated in the British Virgin Islands (holding 25% of the equity interest) and another PRC company (holding 13% of the equity interest).

The Company has been consulting PRC lawyers as to the appropriate actions to take to protect its equity interest in Medical Equipment Subsidiary and to implement appropriate steps to formally re-register the Company as a 65% shareholder of Medical Equipment Subsidiary. Moreover, the Board resolved on 26 March 2009 to establish a Special Investigation Committee for the purposes of, among others, investigating the matters related to the potential dispute as to the Company's ownership in Medical Equipment Subsidiary.

In the opinion of the directors of the Company, the transfer of the Group's 65% interest in Medical Equipment Subsidiary should be void under PRC law and the Company should have effective control over Medical Equipment Subsidiary since it became the 65% equity owner of Medical Equipment Subsidiary in 2002 and, therefore, consider that it is appropriate to include the balances, as set out below, relating to Medical Equipment Subsidiary in the consolidated financial statements of the Company.

	2008	2007
Income and expenses:	***HK$'000***	*HK$'000*
Turnover	**47,692**	38,243
Cost of sales	**(20,925)**	(18,405)
Other income	**5,283**	1,158
Selling and distribution expenses	**(13,282)**	(11,596)
Administrative expenses	**(7,752)**	(7,939)
Other operating expenses	**(2,559)**	(1,339)
Finance costs	**(302)**	(155)
Taxation	**(1,500)**	–
Minority interests	**(2,330)**	(91)
Profit/(loss) attributable to the Group	**4,325**	(124)

2. Basis of Preparation of the Financial Statements *(Continued)*

Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary") *(Continued)*

	2008	2007
Assets and liabilities:	***HK$'000***	*HK$'000*
Property, plant and equipment	**16,339**	6,642
Construction in progress	**–**	6,704
Prepaid lease payments	**1,132**	1,109
Intangible assets	**763**	1,097
Inventories	**12,452**	5,959
Trade and other receivables	**14,716**	6,700
Cash at bank and on hand	**9,775**	3,066
Amount due from/(to) minority interest	**5,840**	(2,335)
Trade and other payables	**(18,738)**	(9,497)
Bank borrowings	**(13,040)**	–
Taxation	**(1,665)**	–
Minority interests	**(9,651)**	(6,875)
Net assets attributable to the Group	**17,923**	12,570

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

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

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

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

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

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

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

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, which are 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
6 Effective for transfers of assets from customers received on or after 1 July 2009

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

4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis and have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

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

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

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

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

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

4. Significant Accounting Policies *(Continued)*

(b) Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

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

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

(c) Revenue recognition

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

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

Service income is recognised when services are provided.

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

4. Significant Accounting Policies *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, other than freehold land, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

(e) Leasing

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.

(i) The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on the straight-line basis over the term of the relevant lease.

4. Significant Accounting Policies *(Continued)*

(e) Leasing *(continued)*

(ii) The Group as lessee

Assets held under finance leases are recognised as assets of the Group 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 consolidated 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 income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income statement on the 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 the straight-line basis.

(iii) Leasehold land

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

4. Significant Accounting Policies *(Continued)*

(f) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items 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 recognised in income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

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

4. Significant Accounting Policies *(Continued)*

(g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. To the extent that fixed-rate bank borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

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.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

(h) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

(i) Taxation

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

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

4. Significant Accounting Policies *(Continued)*

(i) Taxation *(continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, 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.

4. Significant Accounting Policies *(Continued)*

(j) Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on the straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activities.

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

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

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

4. Significant Accounting Policies *(Continued)*

(l) Financial instruments

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

(i) Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

4. Significant Accounting Policies *(Continued)*

(I) Financial instruments *(continued)*

(i) Financial assets (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, and observable changes in national or local economic conditions that correlate with defaults on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

4. Significant Accounting Policies *(Continued)*

(l) Financial instruments *(continued)*

(i) Financial assets (continued)

Impairment of financial assets (continued)

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

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

(ii) Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

4. Significant Accounting Policies *(Continued)*

(l) Financial instruments *(continued)*

(ii) Financial liabilities and equity (continued)

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in income statement on the purchase, sale/issue or cancellation of the Company's own equity instruments.

(iii) Derecognition

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

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

(m) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. Significant Accounting Policies *(Continued)*

(n) Share-based payment transactions

(i) Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on the straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to income statement.

At the time when the share options are exercised, the amount previously recognised in the share options reserve will be transferred to the share premium account. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will be transferred to retained profits.

(ii) Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Note 8 describes the initial services fee income received from the initial services provided in relation to an area of land of 1,000 hectares (equivalent to approximately 10.0 million sq.m.) located in Kratie District, Kratie Province, the Kingdom of Cambodia in which the Group has the right to exploit the natural resources. Management considered the detailed criteria for the recognition of revenue of rendering for services set out in HKAS 18 "Revenue" and, in particular, whether the Group had already provided the respective services. In order to earn such income, the Group needed to provide the initial facilities such as transportation, telecommunications, water and electricity facilities and on the date of signing the services agreement, the Group had substantially completed such obligations. There are no subsequent services that the Group needs to provide according to the services agreement, and, therefore, in the opinion of the directors, the recognition of the full amount of the initial services fee in the current year is appropriate.

Key sources of estimation uncertainty

Set out below are 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 assets and liabilities within the next financial year.

(i) Impairment of intangible assets

The carrying value of the intangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in note 4(j) to the financial statements. The recoverable amount of the intangible assets and property, plant and equipment is the greater of fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

6. Turnover

An analysis of the Group's turnover for the year is as follows:

	2008 *HK$'000*	2007 *HK$'000*
Sales of medical equipment	**47,692**	38,243
Medical equipment service fees and sales of related accessories	**203**	112
Research and development service fees	**32**	88
	47,927	38,443

7. Segment Information

Business segments

For management purposes, the Group is currently organised into four operating divisions as follows:

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

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

Research and development: development of drugs.

Natural resources: forestry exploitation business.

These divisions are the basis on which the Group reports its primary segment information.

7. Segment Information *(Continued)*

Business segments *(Continued)*

	Medical services		Sale of medical equipment		Research and development		Natural resources business		Unallocated		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Income statement:												
Revenue from external customers	**203**	112	**47,692**	38,243	**32**	88	**–**	–	**–**	–	**47,927**	38,443
Segment results	**(668)**	(770)	**(12,481)**	(1,036)	**(17,149)**	(1,153)	**113,504**	(5,501)	**–**	–	**83,206**	(8,460)
Unallocated operating income and expenses											**(9,739)**	(13,170)
Finance costs											**(972)**	(244)
Profit/(loss) before taxation											**72,495**	(21,874)
Taxation											**(1,500)**	(24)
Profit/(loss) for the year											**70,995**	(21,898)
Other information:												
Depreciation and amortisation	**73**	83	**1,309**	1,011	**64**	242	**7,645**	3,757	**206**	195	**9,297**	5,288
Impairment losses recognised on:												
Biological assets	**–**	–	**–**	–	**–**	–	**–**	–	**93**	6,785	**93**	6,785
Intangible assets	**–**	–	**–**	–	**9,600**	–	**–**	–	**–**	–	**9,600**	–
Bad debts written off	**–**	109	**1,790**	972	**–**	7	**–**	–	**–**	–	**1,790**	1,088
Provision for a potential loss of control of a subsidiary	**–**	–	**15,655**	–	**–**	–	**–**	–	**–**	–	**15,655**	–
Balance sheet:												
Segment assets	**8,682**	9,069	**61,017**	31,277	**22,540**	39,008	**599,861**	279,337	**–**	–	**692,100**	358,691
Unallocated assets											**63,545**	116,124
Total assets											**755,645**	474,815
Segment liabilities	**(2,846)**	(2,628)	**(51,365)**	(11,633)	**(580)**	(745)	**(128)**	(27,334)	**–**	–	**(54,919)**	(42,340)
Unallocated liabilities											**(96,169)**	(27,335)
Total liabilities											**(151,088)**	(69,675)
Capital expenditure incurred during the year	**3,402**	–	**10,179**	6,906	**17,064**	–	**280,337**	263,126	**34,114**	9,181	**345,096**	279,213

7. Segment Information *(Continued)*

Geographical segments

The Group's four divisions operate in three principal geographical areas – the Peoples' Republic of China (the "PRC"), Russia, Cambodia. The following table provides an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods and services. Other geographical areas include India, Turkey and Indonesia.

	The PRC		Russia		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**31,074**	17,366	**276**	6,767	**16,577**	14,310	**47,927**	38,443

	The PRC		Hong Kong		Cambodia		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**129,513**	112,506	**21,820**	82,972	**604,312**	279,337	**755,645**	474,815

8. Income from Forestry Exploitation Business

	2008	2007
	HK$'000	HK$'000
Sub-concession of 10% of forest exploitation rights *(note 1)*	**51,985**	–
Initial services fee income *(note 2)*	**78,000**	–
	129,985	–

Note:

(1) As detailed in the Company's circular dated 9 May 2008, the Group entered into a cooperation agreement with an independent third party, Qiong Hai Xin Neng Agriculture Development Company Limited ("Qiong Hai Agriculture") on 20 March 2008 pursuant to which the Group agreed to sub-lease to Qiong Hai Agriculture an approximately 1,000 hectares (equivalent to approximately 10 million sq.m.), representing approximately 10% of the total site area of its forest (the "First Forest") located in Kratie District, Kratie Province, the Kingdom of Cambodia. The forest exploitation rights were acquired by the Group pursuant to the sale and purchase agreement dated 25 July 2007 in which the Group secured the right to exploit the natural resources of the forest, for a term of approximately 70 years from 24 March 2008 to 11 November 2077, being the expiry date of the exclusive exploitation rights granted to the Group in respect of the First Forest, for a cash consideration of US$10 million (equivalent to approximately HK$78 million).

(2) As detailed in the Company's announcement dated 21 November 2008, the Group entered into a services agreement with an independent third party, Eastwood Link Limited ("Eastwood Link") pursuant to which, Eastwood Link agreed to pay the Group a consideration of US$10 million (equivalent to approximately HK$78 million) for being appointed as the sole provider of services to the Group in respect of an area of land of approximately 1,000 hectares (equivalent to approximately 10 million sq.m.) located in Kratie District, Kratie Province, the Kingdom of Cambodia for the period from 20 November 2008 to 31 December 2010. The forest exploitation rights were acquired by the Group pursuant to the sale and purchase agreement dated 25 July 2007 in which the Group has the right to exploit the natural resources of the forest (the "Designated Land"). Eastwood Link is entitled to receive the operating profits up to an aggregate amount of US$15 million (equivalent to approximately HK$117 million) generated from the sale of wood products manufactured from the trees currently standing on the Designated Land.

9. Other Income

	2008 HK$'000	2007 HK$'000
Bad debts recovered	**3,246**	272
Write-back of accrued expenses	**787**	–
Bank interest income	**611**	2,279
Other	**2,111**	1,563
	6,755	4,114

10. Profit/(Loss) before Taxation

Profit/(loss) before taxation is arrived at after charging:

	2008 HK$'000	2007 HK$'000
Finance costs:		
Interest on bank loan	**302**	155
Interest on bonds	**670**	89
Total borrowing costs	**972**	244
Other operating expenses		
Research and development costs	**10,043**	1,630
Others	**276**	15
	10,319	1,645
Staff costs:		
Staff costs (including directors' remuneration disclosed in Note 12)		
Wages and salaries	**12,188**	8,657
Share based payments	**4,448**	1,875
Staff retirement benefits	**1,561**	795
	18,197	11,327
Other items:		
Cost of inventories (Note 21)	**20,965**	18,437
Depreciation	**1,432**	1,044
Loss on disposal of property, plant and equipment	**19**	–
Bad debts written off	**1,790**	1,088
Auditors' remuneration	**1,726**	1,403
Operating lease charges in respect of office premises	**559**	415
Amortisation of prepaid lease payments	**135**	123
Amortisation of intangible assets:		
Forest exploitation rights	**7,332**	3,757
Other	**398**	364

11. Taxation

(a) Taxation in the consolidated income statement represents:

	2008	2007
	HK$'000	HK$'000
Current tax – PRC Income Tax for the year	**1,500**	24

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits in Hong Kong during the year.

(ii) PRC Income Tax

The Company's subsidiary, Tat Lung Medical Treatment (shenzhen) Ltd. ("Tat Lung Treatment"), located in the Shenzhen Special Economic Zone, the PRC ("SSEZ"), is subject to PRC income tax at the reduced rate of 15% (2007: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC income tax of 25% (2007: 33%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment and Sinnowa obtained approval from the state tax bureau that they are entitled to 100% relief from PRC Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

Tat Lung Treatment started its first profitable year in 2004 and 2008 is the last year of 50% relief. Sinnowa started its first profitable year in 2006 and is now in its first year of 50% relief.

No provision for PRC Income Tax has been made for the Company's other subsidiaries as they did not have any assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

(iii) Cambodia Tax on Profits

No provision for Cambodia Tax on Profits has been made for the Company's subsidiaries as they did not have any assessable profits for the year determined in accordance with the relevant tax rules and regulations in Cambodia.

11. Taxation *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Profit/(loss) before taxation	**72,495**	(21,874)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to the countries concerned	**(9,741)**	(5,312)
Tax effect of non-deductible expenses	**12,740**	5,446
Tax effect of concession period	**(1,499)**	(110)
Taxation for the year	**1,500**	24

The tax rate applicable to the Group's operations in Hong Kong is 16.5% (2007: 17.5%). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. The applicable income tax rate for Cambodia is 20%. The applicable income tax rate for the Group's PRC operations is 25% (2007: 33%) except for certain subsidiaries which are located in the SSEZ, for which the applicable income tax rate is 15% (2007: 15%). These tax rates are taken into account in the preparation of the Group's tax reconciliation.

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2007: HK$Nil).

12. Directors' Remuneration

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

	Directors fees		Salaries, allowances and benefits in kind		Share based payments		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors								
Leung Sze Yuan, Alan	**–**	–	**245**	–	**651**	–	**896**	–
Zhang Zhenzhong	**–**	–	**286**	–	**651**	–	**937**	–
Li Wo Hing	**–**	–	**–**	–	**–**	188	**–**	188
Non-executive directors								
Chen Minshan	**20**	60	**–**	–	**–**	–	**20**	60
Li Nga Kuk, James	**152**	–	**–**	152	**–**	–	**152**	152
Li Tai To, Titus	**152**	–	**–**	152	**–**	–	**152**	152
Independent non-executive directors								
Fan Wan Tat	**120**	60	**–**	200	**–**	–	**120**	260
Tam Wai Leung, Joseph	**120**	60	**–**	68	**–**	–	**120**	128
Chan Kim Chung, Daniel	**120**	60	**–**	32	**–**	–	**120**	92
	684	240	**531**	604	**1,302**	188	**2,517**	1,032

The remuneration of all directors are within the Nil – $1,000,000 band.

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2008.

Directors are appointed for one year terms and renewal terms are agreed by the Remuneration Committee annually.

13. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, two (2007: one) are directors whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the remaining three (2007: four) individuals are as follows:

	2008	2007
	HK$'000	HK$'000
Basic salaries, allowances and other benefits	**885**	399
Discretionary bonuses	**14**	12
Share based payments	**1,355**	1,313
Retirement benefit scheme contributions	**12**	11
	2,266	1,735

The emoluments of the remaining three (2007: four) individuals with the highest emoluments are within the following band:

	2008	2007
	Number of Individuals	Number of individuals
Nil – $1,000,000	**3**	4

14. Earnings/(Loss) Per Share

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 HK$'000	2007 HK$'000
Earnings		
Earnings for the purpose of basic and diluted earnings/(loss) per share attributable to equity holders of the Company	**68,665**	(21,989)

Number of shares

	2008 '000	2007 '000
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**1,801,721**	1,035,036

The diluted earnings per share is the same as basic earnings per share for the year ended 31 December 2008 because the exercise price of the Company's share options was higher than the average market price of the shares. No diluted loss per share has been presented for the year ended 31 December 2007 because the exercise of share options would result in an anti-dilutive effect.

15. Property, Plant and Equipment

	Buildings	Constructed roads	Medical equipment	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
At 1 January 2007	6,339	–	509	2,345	2,358	11,551
Additions	–	–	–	139	308	447
Disposals	–	–	(105)	–	–	(105)
Exchange adjustments	463	–	14	112	164	753
At 31 December 2007	6,802	–	418	2,596	2,830	12,646
At 1 January 2008	6,802	–	418	2,596	2,830	12,646
Additions	4,678	6,786	–	842	4,597	16,903
Transfer from CIP (Note 17)	7,118	–	–	–	–	7,118
Disposals	–	–	–	(41)	(442)	(483)
Exchange adjustments	422	–	6	102	166	696
At 31 December 2008	**19,020**	**6,786**	**424**	**3,499**	**7,151**	**36,880**
Aggregate depreciation						
At 1 January 2007	619	–	443	1,618	1,398	4,078
Charge for the year	220	–	23	352	449	1,044
Write-back on disposal	–	–	(105)	–	–	(105)
Exchange adjustments	54	–	10	74	112	250
At 31 December 2007	893	–	371	2,044	1,959	5,267
At 1 January 2008	893	–	371	2,044	1,959	5,267
Charge for the year	444	151	7	365	465	1,432
Write-back on disposal	–	–	–	(31)	(433)	(464)
Exchange adjustments	59	–	4	79	118	260
At 31 December 2008	**1,396**	**151**	**382**	**2,457**	**2,109**	**6,495**
Net book value						
At 31 December 2008	**17,624**	**6,635**	**42**	**1,042**	**5,042**	**30,385**
At 31 December 2007	5,909	–	47	552	871	7,379

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

The above items of property, plant and equipment are depreciated on the straight-line basis over their estimated useful lives as follows:

Buildings	Shorter of 50 years and the remaining terms of the leases
Constructed roads	30 years
Medical equipment	6 years
Motor vehicles	5 years
Plant, machinery and equipment	5 years

The Group has pledged buildings with carrying amount of approximately HK$15,042,000 (2007: HK$5,865,000) to secure general banking facilities and borrowings granted to the Group.

The buildings of the Group are situated as follows:

	2008	2007
	HK$'000	HK$'000
PRC	**15,086**	5,909
Cambodia	**2,538**	–
	17,624	5,909

16. Biological Assets

	2008 HK$'000	2007 HK$'000
Cost/Valuation		
At beginning of the year	**88**	2,426
Additions	**–**	4,534
Exchange adjustments	**5**	(87)
Impairment loss recognised	**(93)**	(6,785)
At end of the year	**–**	88

Biological assets represent trees in a plantation forest and are stated at fair values less estimated point-of-sale costs and impairment losses, if any. The trees in the plantation forest are Osmanthus Frangans, commonly referred to as Tea Olive trees (桂花樹) in Guilin, the PRC. The Group experienced losses on its plantation development due to poor climate conditions, including a drought and the heavy snow storms which affected Central and Southern China during the year ended 31 December 2007. In light of such damage, particularly to young plants, the Board reassessed its plantation development plans and made an impairment loss of HK$93,000 (2007: HK$6,785,000) for the year.

17. Construction in Progress

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	**18,189**	6,447
Additions	**19,755**	11,272
Transfer to property, plant and equipment (Note 15)	**(7,118)**	–
Exchange adjustments	**1,124**	470
Balance at end of the year	**31,950**	18,189

18. Prepaid Lease Payments

	2008 HK$'000	2007 HK$'000
Cost		
At beginning of the year	**2,826**	2,635
Exchange adjustments	**175**	191
At end of the year	**3,001**	2,826
Accumulated amortisation		
At beginning of the year	**263**	126
Charge for the year	**135**	123
Exchange adjustments	**18**	14
At end of the year	**416**	263
Carrying values	**2,585**	2,563

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

The Group has pledged leasehold land assets with a carrying value of approximately HK$1,132,000 (2007: HK$1,109,000) to secure general banking facilities and borrowings granted to the Group.

19. Intangible Assets

	Forest exploitation rights HK$'000	Medical research projects HK$'000	Others HK$'000	Total HK$'000
Cost				
At 1 January 2007	–	84,007	2,468	86,475
Additions				
– through acquisition of a subsidiary	208,360	–	–	208,360
– by the Group	54,600	–	–	54,600
Exchange adjustments	–	145	180	325
At 31 December 2007 and 1 January 2008	262,960	84,152	2,648	349,760
Additions				
– through acquisition of a subsidiary	270,000	–	–	270,000
– by the Group	2,207	–	–	2,207
Disposals	(26,391)	–	–	(26,391)
Exchange adjustments	–	133	162	295
At 31 December 2008	**508,776**	**84,285**	**2,810**	**595,871**
Accumulated amortisation				
At 1 January 2007	–	57,292	1,093	58,385
Charge for the year	3,757	–	364	4,121
Exchange adjustments	–	–	93	93
At 31 December 2007 and 1 January 2008	3,757	57,292	1,550	62,599
Impairment loss recognised	–	9,600	–	9,600
Charge for the year	7,332	–	398	7,730
Write-back on disposal	(376)	–	–	(376)
Exchange adjustments	–	–	99	99
At 31 December 2008	**10,713**	**66,892**	**2,047**	**79,652**
Carrying value				
At 31 December 2008	**498,063**	**17,393**	**763**	**516,219**
At 31 December 2007	259,203	26,860	1,098	287,161

19. Intangible Assets *(Continued)*

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

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

The amortization has been included in administrative expenses in the consolidated income statements.

Forest exploitation rights

The Group first acquired an exclusive right to exploit a forest area located in Kratie District, Kratie Province, Cambodia (the "First Forest") for a period of 70 years during the year ended 31 December 2007. The Group acquired additional exclusive rights to exploit the forest located adjacent to the First Forest during the year ended 31 December 2008. Details of the acquisition of the forest exploitation rights are set out in note 20 to the consolidated financial statements.

Amortization of forest exploitation rights are charged to the income statement on the straight-line basis over the assets' estimated useful lives of 70 years. At 31 December 2008, the directors of the Company reviewed the carrying values of the forest exploitation rights, taking into account an independent valuation report prepared by a professional valuer. Based on the assessment and the valuation report, the directors are of the opinion that there are currently no indications that the values of the forest exploitation rights may be impaired.

On 30 June 2008, (Cambodia) Tong Min, a wholly-owned subsidiary of the Group, entered into a cooperation agreement to sublease 10% of the First Forest to an independent third party for a cash consideration of US$10 million (equivalent to approximately HK$78 million).

Medical research projects

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

During the year ended 31 December 2008, the directors of the Company reviewed the carrying value of the one remaining medical research project individually, taking into account an updated independent valuation report, the future development resources required, the stage of completion and the risks surrounding the successful development and commercialisation of the project. There is inherent uncertainty over the outcome of the project and, based on the valuation assessment, the directors considered that a further impairment loss of HK$9,600,000 was required for the year ended 31 December 2008.

20. Acquisition of Subsidiaries

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

	Fair value to the Group
	HK$'000
Intangible assets – Forest exploitation rights	208,360
Satisfied by:	
Cash	50,000
Bonds (Note 27)	70,000
Convertible bonds (Note 27)	13,160
Consideration shares (Note 28)	75,200
Total consideration	208,360

On 8 July 2008, Forest Glen Group Limited, a wholly-owned subsidiary of the Company, acquired the entire equity interest of Agri-Industrial Crop for a total consideration of HK$270,000,000. The fair values of the net assets acquired were as follows:

	Fair value to the Group
	HK$'000
Intangible assets – Forest exploitation rights	270,000
Satisfied by:	
Cash	80,000
Bonds (Note 27)	70,000
Consideration shares (Note 28)	120,000
Total consideration	270,000

Both of the above acquisitions have been accounted for as acquisitions of assets.

21. Inventories

	2008 HK$'000	2007 HK$'000
Raw materials	**3,646**	3,483
Work in progress	**2,468**	434
Finished goods	**7,461**	2,102
	13,575	6,019

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

	2008 HK$'000	2007 HK$'000
Carrying amount of inventories sold	**20,965**	18,437

22. Trade and Other Receivables

	2008 HK$'000	2007 HK$'000
Trade debtors	**8,940**	10,467
Less: Allowance for doubtful debts	**(4,228)**	(6,097)
	4,712	4,370
Other receivables, deposits and prepayments	**101,884**	14,771
Deposits paid	**81**	15,000
Amount due from Chinese Partner (Note 32)	**5,840**	–
Amount due from an officer	**–**	19,875
Loans and receivables	**112,517**	54,016

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

22. Trade and Other Receivables *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Within 3 months from the date of billing	**4,031**	3,518
3 to 6 months from the date of billing	**13**	322
6 to 12 months from the date of billing	**668**	530
	4,712	4,370

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

	2008	2007
	HK$'000	HK$'000
Less than one month overdue	**287**	508
One to three months overdue	**246**	735
Over three months overdue	**4,003**	1,303
	4,536	2,546

Movement in the allowance for doubtful debts

	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**6,097**	5,230
Provision for the year	**1,790**	1,088
Amounts recovered during the year	**(3,246)**	(272)
Exchange adjustments	**(413)**	51
Balance at end of the year	**4,228**	6,097

The average credit period on sales of goods is 30 to 90 days.

22. Trade and Other Receivables *(Continued)*

Receivables neither past due nor impaired relate to a wide range of customers who have no recent history of defaults. Receivables that were past due but not impaired relate to a number of independent customers that have good track records with the Group.

Other receivables mainly represented the balance of receivables for the service agreement and sub-concession of the 10% forest exploitation rights in respect of the First Forest as disclosed in notes 8 and 19 to the financial statements.

As at 31 December 2007, deposits paid mainly represented earnest money paid to the vendor as a deposit for the acquisition of Agri-Industrial Crop. The acquisition was completed during the year ended 31 December 2008.

As at 31 December 2007, the amount due from an officer represented the amount due from Mr. Zhang Zhenzhong, the chief executive officer of (Cambodia) Tong Min who was subsequently appointed as an executive director of the Company on 23 May 2008. The amount represented general funding for preliminary operations in Cambodia and was fully settled on 15 March 2008.

23. Cash at Bank and on Hand

Bank balances carry interest at market rates which range from 0.1% to 1.15% (2007: 0.1% to 2.1%) per annum.

24. Trade and Other Payables

	2008 ***HK$'000***	2007 *HK$'000*
Trade payables	**8,120**	3,854
Other payables and accrued liabilities	**19,065**	40,092
Amount due to Chinese Partner (Note 32)	**2,267**	4,470
Amount due to other minority interest (Note 32)	**20,975**	20,975
Financial liabilities measured at amortised cost	**50,427**	69,391

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

24. Trade and Other Payables *(Continued)*

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

	2008	2007
	HK$'000	*HK$'000*
Due within 3 months or on demand	6,590	2,183
Due after 3 months but within 6 months	118	620
Due after 6 months but within 1 year	1,412	1,051
	8,120	3,854

25. Provision for a Potential Loss of Control of a Subsidiary

	2008	2007
	HK$'000	HK$'000
Provision for the year and balance at end of the year	15,655	–

As detailed in note 2 to the financial statements, the Company is having a potential dispute over the ownership in the Medical Equipment Subsidiary. The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of Medical Equipment Subsidiary.

The Board is of the opinion that full provision on the net assets value of Medical Equipment Subsidiary attributable to the Group amounting to approximately HK$17,923,000, less the amount of RMB2,000,000 (approximated to HK$2,268,000) as general advance from the Chinese Partner, is considered necessary.

26. Bank Borrowings

	2008	2007
	HK$'000	HK$'000
Within one year or on demand	13,040	–

The bank borrowing was secured by buildings and leasehold land assets of the Group with an aggregate carrying value of HK$16,174,000 (2007: Nil). The effective interest rate on the bank borrowing is 7.05% per annum.

27. Other Interest Bearing Borrowings

Bonds

On 8 July 2008, the Company issued HK$70,000,000 bonds as part of the consideration for the acquisition of Agri-Industrial Crop as set out in note 20 to the financial statements. The bonds are unsecured, interest-bearing at 2% per annum and repayable on 8 July 2010.

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

Convertible bonds

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

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

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

– Conversion rights were exercisable at any time up to maturity at the bondholders' option; and

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

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

28. Share Capital

	2008		2007	
	No. of shares	**Amount**	No. of shares	Amount
	'000	**HK$'000**	'000	HK$'000
Shares of HK$0.01 each				
Authorised				
At beginning of the year	**5,000,000**	**50,000**	2,000,000	20,000
Increase during the year	**–**	**–**	3,000,000	30,000
At end of the year	**5,000,000**	**50,000**	5,000,000	50,000
Issued and fully paid				
At beginning of the year	**1,705,000**	**17,050**	835,000	8,350
New share placement	**–**	**–**	167,000	1,670
Top-up placement	**–**	**–**	233,000	2,330
Issue of shares	**200,000**	**2,000**	400,000	4,000
Conversion of shares	**–**	**–**	70,000	700
At end of the year	**1,905,000**	**19,050**	1,705,000	17,050

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

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

(iii) On 22 October 2007, the Company increased its amount of share capital to HK$16,350,000 by the allotment of 233,000,000 top-up shares and 400,000,000 consideration shares for the acquisition of (Cambodia) Tong Ming (Note 20).

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

(v) On 8 July 2008, the Company increased its issued share capital to HK$19,050,000 by issuing of 200,000,000 consideration shares for the acquisition of Agri-Industrial Corp (Note 20).

All the above newly issued shares rank pari pass with the existing shares in all respects.

29. Commitments

Capital commitments

Capital commitments outstanding at 31 December 2008 contracted but not provided for in the financial statements were as follows:

	2008	2007
	HK$'000	HK$'000
Capital contributions to subsidiaries	**–**	1,560
Property, plant and equipment	**5,568**	12,133
	5,568	13,693

Operating lease commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2008	2007
	HK$'000	HK$'000
Within 1 year	**206**	257
After 1 year but within 5 years	**48**	220
After 5 years	**255**	251
	509	728

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

30. Employee Retirement Benefits

Defined contribution retirement plan

Hong Kong

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

The PRC

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

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

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in the income statement of the Group is disclosed in Note 10 to the financial statements.

31. Share-Based Payment Transactions

The Company's share option scheme (the Scheme), was adopted pursuant to a resolution passed on 14 December 2001 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 13 December 2011. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

31. Share-Based Payment Transactions *(Continued)*

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 76,000,000 (2007: 40,000,000), representing 3.99% (2007: 2.34%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No consideration is payable on the grant of an option. Options may be exercised on the second anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Details of specific categories of options are as follows:

Directors

Date of grant	Exercise period	Exercise price	Fair value at grant date
		HK$	HK$
12 October 2007	12 October 2009 to 13 October 2011	0.45	0.23
31 March 2008	31 March 2010 to 31 March 2012	0.21	0.085

Employees

12 October 2007	12 October 2009 to 13 October 2011	0.45	0.23
31 March 2008	31 March 2010 to 31 March 2012	0.21	0.085

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2007 and 31 December 2008 vest on the second anniversary of the date of grant.

31. Share-Based Payment Transactions *(Continued)*

The fair value of the share options granted during the financial year is approximately HK$4,448,000 (2007: HK$1,875,000) each. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past two years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

Input into the model:

	2008	2007
Date of grant	**31/3/2008**	12/10/2007
Grant date share price	**0.206**	0.43
Exercise price	**0.210**	0.45
Expected volatility	**18.55%**	101.49%
Option life	**2 years**	2 years
Risk-free interest rate	**1.837%**	4.170%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

31. Share-Based Payment Transactions *(Continued)*

Inputs into the model *(Continued)*

The following table discloses movements in the Company's share options held by employees and directors during the year.

Date of Grant	Outstanding at 1/1/2007	Granted during the year	Outstanding at 31/12/2007 and 31/12/2008	Granted during the year	Lapsed during the year	Outstanding at 31/12/2008
	'000	'000	'000	'000	'000	'000
12/10/2007	–	40,000	40,000	–	(4,000)	36,000
31/3/2008	–	–	–	36,000	–	36,000
	–	40,000	40,000	36,000	(4,000)	72,000

32. Material Related Party Transactions

Transactions and balances

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

	2008	2007
	HK$'000	HK$'000
Advance to an officer	**–**	19,875
Amount due from Chinese Partner	**5,840**	–
Amount due to Chinese Partner	**(2,267)**	(4,470)
Amount due to other minority interest	**20,975**	20,975
Management fee to Chinese Partner	**1,709**	3,364

The Group advanced a net amount of approximately HK$3,572,000 to the Chinese Partner. The Chinese Partner is a minority shareholder of Medical Equipment Subsidiary. The advance is interest free, unsecured and repayable on demand.

The Group had a payable to other minority interest, namely, Ms. Guo Ping, of approximately HK$20,975,000. Ms. Guo Ping is a minority shareholder of Medical China Technology Ltd.

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

32. Material Related Party Transactions *(Continued)*

Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 12 and certain of the highest paid employees as disclosed in Note 13, are as follows:

	2008	2007
	HK$'000	HK$'000
Short-term employee benefits	1,215	844
Share based payments	1,302	188
	2,517	1,032

Total remuneration is included in staff costs (Note 10).

33. Post Balance Sheet Events

As detailed in Note 2 to the financial statements and as reported in the Company's announcement on 26 March 2009, the Group has a potential dispute over the ownership in the Medical Equipment Subsidiary.

34. Capital Risk Management

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

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness divided by the equity attributable to equity holders of the Group. Total indebtedness includes bank, bank borrowings, bonds and other interest bearing securities. Equity attributable to equity holders comprises issued share capital, reserves and accumulated profits as disclosed in the consolidated statement of changes in equity.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue new shares, repurchase shares, raise new debt financing or repayment of existing debts.

34. Capital Risk Management *(Continued)*

The gearing ratio of the Group was 13.6% (2007: nil) as at 31 December 2008 and 31 December 2007 respectively. The capital base was increased by HK$120,000,000 on the completion of the acquisition on 8 July 2008. The increase in gearing ratio in the financial year was due to the issue of HK$70,000,000 2-year bonds with interest at 2% p.a. and the grant of new bank loan from 南京市區農村信用合作聯社 and China Merchant Bank, the total banking facilities utilized were at HK$13,040,000, both of which were secured by buildings and leasehold land assets of the Group.

The Board believes the existing gearing ratio of 13.6% is reasonable considering the cost of capital and the risks associated with each class of capital.

35. Financial Instruments

(a) Categories of financial instruments

	2008	2007
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents	**160,931**	153,416
Financial liabilities		
Amortised cost	**133,467**	69,391

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash at bank and on hand, trade and other payables, and bank borrowings and bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

35. Financial Instruments *(Continued)*

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

Market risk

(a) Foreign exchange risk

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

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

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

As at 31 December 2008, the Group had no outstanding hedging instruments (2007: HK$Nil).

(b) Interest rate risk

The Group's explosure to fair value interest rate risk arises primarily from bank loans chargeable at variable rates that expose the company to uncertainty on interest expenses and bond chargeable at fixed rate that provide a comfortable zone in controlling the overall interest expenses. The group's policy is to minimize the borrowings at variable interest rates in the interest rate profile. The company's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the company's net borrowings (as defined above) at the balance sheet date:

	2008		2007	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Net fixed rate borrowings:				
Bonds	**2.0%**	**70,000**		–
Variable rate borrowings:				
Bank borrowings	**7.05%**	**13,040**		–
Total net borrowings		**83,040**		–

35. Financial Instruments *(Continued)*

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

Market risk (Continued)

(b) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of one per cent in interest rates, with all other variables held constant, would decrease/increase the company's profit after tax and retained profits by approximately $130,400 (2007: $nil). Other components of equity would not be affected (2007: $nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one per cent increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances. The Group cash flow interest rate is mainly concentrated on the fluctuation of the saving interest rates set by the financial institutions.

The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

35. Financial Instruments *(Continued)*

(a) Credit risk

The carrying amount of trade and other receivables included in the balance sheet represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible trade and other receivables has been made.

(b) Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or form external events. It is inherent to every business organization and covers a wide spectrum of issues. The terms 'error', 'omission' and 'inefficiency' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance level as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

Reference is made to the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership on the Medical Equipment Subsidiary.

35. Financial Instruments *(Continued)*

(b) Operational risk *(Continued)*

The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary. Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish a special investigation committee (the "Special Investigation Committee") (comprising Mr. Leung Sze Yuan, Alan, an executive Director, Mr. Tam Wai Leung, Joseph, an independent non-executive Director, and Mr. Chan Kim Chung, Daniel, an independent non-executive Director) for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Company. The Special Investigation Committee is authorized to appoint independent professional advisers (including but not limited to accountants, legal advisers) to assist in the course of its investigation and internal review, and will report to the Board its findings as soon as practicable. As at the date of this announcement, the Special Investigation Committee intends to appoint Synthesis Consultancy Limited, an independent consultancy company, to conduct a review on its internal control system of all relevant financial, operational, compliance controls and risk management functions.

(c) Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

35. Financial Instruments *(Continued)*

(c) Liquidity risk management *(Continued)*

The following table shows the details of the Group's expected maturity of the financial instruments.

2008

	Weighted average effective interest rate %	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Bonds	2.00	670	72,121	72,791	70,000
Bank	7.05	13,899	–	13,899	13,040
Others borrowings		–	–	–	–
		14,569	72,121	86,690	83,040

2007

	Weighted average effective interest rate %	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Bonds		–	–	–	–
Bank		–	–	–	–
Others borrowings		–	–	–	–
		–	–	–	–

As shown in the above analysis, bank loans of $13,040,000 were due to be repaid during 2009. As both of the bank loans were pledged by buildings and leasehold land assets of the Group, there should not be any difficulties for the loans to be rollover upon maturity.

35. Financial Instruments *(Continued)*

(d) Fair value of the financial instruments

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 or rates from observable current market transactions as input.

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

(e) Other risks

The Group's sales, purchases and expense transactions are generally denominated in USD and RMB and a significant portion of the Group's assets and liabilities is denominated in USD and RMB. The USD is pegged and fixed within a range. The RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorised financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittances.

36. Particulars of Principal Subsidiaries of the Company

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital/ paid-in capital	Registered capital	Principal activities	Notes
Future Asia Management Ltd.	British Virgin Islands ("B.V.I.")	100%	100%	–	US$20,000	US$50,000	Investment holding	
Tat Lung Medical Treatment Technology Limited	Hong Kong	100%	–	100%	HK$142,900	HK$142,900	Investment holding	
Tat Lung Medical Treatment (Shenzhen) Ltd.	PRC	100%	100%	–	US$300,000	US$300,000	Development of software for medical equipment	(i)
China Best Drugs Research (Nanjing) Ltd.	PRC	75%	–	100%	US$3,000,000	US$3,000,000	Research and development of medicine and drugs	(ii)
Sinnowa Medical Science and Technology Co. Ltd.	PRC	65%	65%	–	US$1,500,000	US$1,500,000	Manufacture and sale of medical equipment	(iii)
Medical China Technology Ltd.	B.V.I.	75%	75%	–	US$100	US$50,000	Investment holding	
CB Pharmaceutical (Nanjing) Co., Ltd.	PRC	100%	100%	–	US$5,000,000	US$5,000,000	Manufacture and sale of medicine and drugs	(iv)

36. Particulars of Principal Subsidiaries of the Company *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital/ paid-in capital	Registered capital	Principal activities	Notes
Guilin Simei and Biotechnology Ltd.	PRC	100%	100%	–	US$1,000,000	US$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usage	(v)
China Cambodia Resources Limited (formerly known as "Allied Luck Worldwide Limited")	B.V.I	100%	100%	–	US$1	US$50,000	Investment holding	(vi)
(Cambodia) Tong Min Group Engineering Co., Ltd.	Cambodia	100%	–	100%	US$1,000,000	US$1,000,000	Forestry business and development of rubber plantation for latex production	(vii)
Forest Glen Group Ltd.	B.V.I	100%	100%	–	US$1	US$50,000	Investment holding	(viii)
Agri-Industrial Crop Development Co., Ltd.	Cambodia	100%	–	100%	US$1,000,000	US$1,000,000	Forestry business and development of rubber plantation for latex production	(ix)

36. Particulars of Principal Subsidiaries of the Company *(Continued)*

Notes:

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

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

(iii) The subsidiary is a sino-foreign enterprise set up to establish a medical equipment production line in Nanjing, the PRC. As at 31 December 2008 and 2007, the Company's total investment in this subsidiary amounted to US$975,000. The potential dispute on the ownership of Medical Equipment Subsidiary is set out in note 2.

(iv) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC. During the year, the Company injected US$200,000 by way of capital contributions. 南京德遠會計師事務所 verified US$200,000 capital contribution and issued the capital verification report on 10 June 2008. As at 31 December 2008, the Company's total investment in this subsidiary amounted to US$5,000,000.

(v) The subsidiary is a wholly foreign-owned enterprise established in Guilin, the PRC. As at 31 December 2008, the Company's total investment in this subsidiary amounted to US$1,000,000.

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

(vii) The subsidiary is a wholly foreign-owned enterprise established in Cambodia, and was acquired by the Group on 22 October 2007 for an aggregate consideration of HK$208,360,000 (Note 20). It is currently an investment company and undertakes logging/timber operations and is in the process of developing the forest areas into rubber plantation for the production of latex products.

(viii) The subsidiary was incorporated on 30 January 2008 and is the holding company of Agri-Industrial Crop.

(ix) The subsidiary is a wholly foreign-owned enterprise established in Cambodia, and was acquired by the Group on 8 July 2008 for an aggregate consideration of HK$270,000,000 (Note 20). It is currently an investment company with no actual operation took place during the year ended 31 December 2008.

Five Years Summary

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008 HK$'000**
Results					
Turnover	31,576	36,081	34,979	38,443	**47,927**
Profit/(loss) from operations	6,145	(2,000)	(26,472)	(21,630)	**89,122**
Provision for a potential loss of a subsidiary	–	–	–	–	**(15,655)**
Finance costs	(73)	(301)	(271)	(244)	**(972)**
Share of loss of an associate	(290)	–	–	–	**–**
Profit/(loss) before taxation	5,782	(2,301)	(26,743)	(21,874)	**72,495**
Taxation	(2,507)	–	(211)	(24)	**(1,500)**
Profit/(loss) for the year	3,275	(2,301)	(26,954)	(21,898)	**70,995**
Attributable to:					
Equity holders of the Company	3,560	(2,167)	(29,378)	(21,989)	**68,665**
Minority interests	(285)	(134)	2,424	91	**2,330**
	3,275	(2,301)	(26,954)	(21,898)	**70,995**
Assets and liabilities					
Property, plant and equipment	19,493	8,842	7,473	7,379	**30,385**
Biological assets	–	–	2,426	88	**–**
Construction in progress	–	760	6,447	18,189	**31,950**
Prepaid lease payments	1,089	2,303	2,509	2,563	**2,585**
Intangible assets	58,237	57,983	28,090	287,161	**516,219**
Negative goodwill	(3,089)	–	–	–	**–**
Net current assets	44,762	54,300	53,814	89,760	**93,418**
Bonds	–	–	–	–	**(70,000)**
Net assets	120,492	124,188	100,759	405,140	**604,557**
Share capital	8,350	8,350	8,350	17,050	**19,050**
Reserves	108,358	112,104	86,070	381,215	**575,856**
	116,708	120,454	94,420	398,265	**594,906**
Minority interests	3,784	3,734	6,339	6,875	**9,651**
	120,492	124,188	100,759	405,140	**604,557**
Earnings/(loss) per share (in Hong Kong cents)					
Basic	0.43	(0.26)	(3.52)	(2.12)	**3.81**
Diluted	0.43	N/A	N/A	N/A	**3.81**