SANYUAN GROUP LIMITED
三元集團有限公司

(Stock Code : 0140)

ANNUAL REPORT
2007

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Wu Kwai Yung *(Chairman)*
Mr. Zhao Tie Liu *(Managing Director)*
Mr. Leung Hon Man
(Resigned on 17 December 2007)
Dr. Wan Kwong Kee
(Resigned on 3 April 2007)

Independent Non-executive Directors:

Mr. Zhou Haijun
Mr. Xu Quing Fah
(Appointed on 22 April 2008)
Mr. Ng Wai Hung
(Resigned on 1 October 2007)
Mr. Xu Zhi

COMPANY SECRETARY

Ms. Ho Suk Yin Nancy
(Appointed on 14 April 2008)
Mr. Leung Hon Man
(Resigned on 17 December 2007)

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank

SOLICITORS

P.C. Woo & Co.

AUDITORS

CCIF CPA Limited
20/F, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

REGISTERED OFFICE

Workshop 16, 18/F
New Commerce Centre
19 On Sum Street
Shatin, New Territories
Hong Kong

REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
(Formerly known as Secretaries Limited)
Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

CHAIRMAN'S STATEMENT

To the shareholders,

Dear Sir or Madam,

I am delighted to report to you that the Group continue to record growth in turnover and total assets in 2007. Our pharmaceutical business in Tianjin, continue to perform well and made positive contribution to the revenue and results of the Group within the year under review. As part of the re-structuring of our business plan, we have closed the business of GenePro in Hong Kong in order to focus our business in China. The Group was reviewing and restructuring its pharmaceutical and healthcare business of GenePro in order to enhance the performance of this business segment.

Having a mission to enhance our shareholders' value, my colleagues and I will focus on developing our existing core business and grasping business opportunities in the huge China pharmaceutical market. Some business plans have already been carried out. We are optimistic about the business of the Group in the future.

As our resumption proposal has not been accepted, trading of our shares remains suspended. We are now seeking professional advice on next step to strive for resumption of trading of our shares.

I also take this opportunity to thank our customers, shareholders, staff and professional advisers for their continuous support to the Group.

Yours sincerely,
Wu Kwai Yung
Chairman

Hong Kong, 28 April 2008

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

During 2007, keen competition in the pharmaceutical market still existed and tight supervision over the drug prices by the government in the PRC remained the same. Despite of these, the Group still experienced improvements in our operations and financial position during the year under review.

FINANCIAL RESULTS

The 60% owned subsidiary of the Company in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") operated for a full calendar year and our laboratory testing service business also recorded growth in 2007. As a result, consolidated turnover recorded by the Group for the year ended 31 December 2007 was approximately HK$165,676,000 and increased 14.7% from the previous year.

During the year, Hong Jin Holdings Limited ("Hong Jin"), the controlling shareholder of the Company exercised its discretion to further extend the maturity date of a HK$30 million zero-coupon convertible note (the "Note") to 31 March 2009. Accordingly, the Group recorded a gain on adjustment of amortised cost of the Note of HK$4,326,000. The Group also recognised a guarantee income of HK$3,028,000 receivable from two minority shareholders of Tianjin Jinshun and reversed provisions for legal claims and employee benefits of approximately HK$NIL.

Administrative expenses dropped by 13% to HK$9,367,000 (2006: HK$10,774,000) because of the various cost control measures adopted by the Company and the emoluments waived by certain Directors and managements.

Finance cost for the year ended 31 December 2007 was HK$3,813,000 (2006: HK$4,494,000) representing a decrease of 15.1%. The decrease was due to reduction in certain borrowings in Hong Kong.

Consolidated profit reported for the year was HK$3,529,000 as compared to a loss of HK$1,484,000 in 2006.

Profit per share for the year was HK0.28 cents (2006: loss per share of HK0.25 cents) because a profit was recorded for the year.

REVIEW OF OPERATIONS

The PRC

During the year under review, the Chinese government continued to strengthen supervision over drug prices and expanded the scope of drugs under government-set pricing. As drug manufacturers and distributors in the PRC have to comply with the existing pricing caps in dealing with the regulated drugs, competition became stiffer and profit margins were inevitably narrowed within the pharmaceutical industry.

In spite of the averse circumstances, the Group continued to distribute its existing products with resulted turnover increased to HK$165,397,000 which accounted for 99.8% (2006: 99.2%) of the total turnover of the Group.

MANAGEMENT DISCUSSION & ANALYSIS

Hong Kong

The Group was reviewing and restructuring its pharmaceutical and healthcare business during the year to enhance the performance of this business segment. Preliminary exploration and negotiation with certain local hospitals in central China to setting up testing laboratories and provision of DNA testing services have been started and undergoing. As the business was under restructuring process, it contributed about HK$279,000 and accounted for approximately 0.2% (2006: 0.8%) of the total turnover of the Group.

During the year, there were no material acquisitions and disposals of subsidiaries and associates.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had total assets of approximately HK$68,262,000 (2006: HK$49,354,000), among which, HK$67,170,000 (2006: HK$48,805,000) were current assets comprised mainly of trade and other receivables of HK$51,125,000, bank balance and cash of HK$9,009,000.

Total liabilities of the Group amounted to approximately HK$82,401,000 (2006: HK$71,297,000). Among the total liabilities, HK$24,880,000 was the carrying amount of the Note. The Note was issued to Hong Jin and will be mandatory and automatically converted into ordinary shares of the Company upon, inter alia, the trading of the shares of the Company resumes. During the year, the maturity date of the Note has been further extended by Hong Jin to 31 March 2009. The other current liabilities included mainly other borrowings of HK$5,951,000, trade and other payables of HK$35,688,000 and the provisions of HK$14,964,000 made in previous years for employee benefits and legal claims etc.

The financial position of the Group further improved during the year ended 31 December 2007. The gearing ratio (total liabilities as a percentage of total assets) decreased to 120.7% at the end of 2007 (As at 31 December 2006: 144.5%). Current ratio improved from 68.5% to 116.8% as at 31 December 2007. Should the Note of HK$30,000,000 mentioned above be converted, the Group would probably improve from net liabilities position to net assets position.

Most of the sales, sales-related costs and expenses, and a portion of the assets and liabilities of the Group are denominated in Renminbi. Renminbi revenue and profit generated are applied to meet the Renminbi obligations of the Group. Other cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars. As such, no financial instruments had been used for hedging purpose. During the year, the Group had not been exposed to any material exchange rate fluctuation.

MANAGEMENT DISCUSSION & ANALYSIS

CHARGES ON ASSETS

As at 31 December 2007, certain assets of the Group with aggregate carrying value of approximately HK$6,710,000 were pledged to secure the Group's borrowing as compared to HK$255,000 as at 31 December 2006.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 31 December 2007, the Group employed 48 employees in Hong Kong and the PRC. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and will be reviewed annually by the Remuneration Committee.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31 December 2007 are set out in note 31 to the financial statements.

OUTLOOK

The Group in the past participated as drug distributor in the PRC pharmaceutical market and had enjoyed rapid growth of the industry. As the PRC pharmaceutical market is expected to grow continuously, the Group will continue to expand its operations in the pharmaceutical business.

The management notes that the profit margins of the distribution of pharmaceutical products had been narrowed by keen competition and stringent government pricing policy. In order to improve the profitability of the Group and strengthen its competitiveness in the market, it is believed that the development and distribution of its own pharmaceutical products will be the long-term strategy for the Group to pursue. The Group is currently identifying various pharmaceutical products with potential to be invested and collaborating with certain medical institutes in launching the DNA testing services/products in the PRC.

At the same time, the Company also solicits investors in making investments in and/or introducing new projects to the Group to assist its business to expand.

Trading the shares of the Company has been suspended at the request of the Company since 13 May 2004. According to Rule 13.24 of the Listing Rules, the Company should carry out, directly or indirectly, a sufficient operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of its shares. A proposal was submitted to the Stock Exchange to warrant the Company's compliance with Rule 13.24. After reviewing the Company's proposal, the Stock Exchange decided that the proposal was not viable. The Company is currently in the process of obtaining professional advice and discussing with its professional advisors on the appropriate actions to be taken by the Company in achieving the resumption of trading of its shares. Further announcement(s) will be made by the Company in respect of this matter as and when appropriate.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Kwai Yung, aged 57, is an Executive Director and the Chairman of the Company. Mr. Wu is very experienced in property investment and management. He had developed the "South China Mall" in Dongguan, one of the largest shopping malls in the PRC. Moreover, Mr. Wu is also an entrepreneur and investor in other businesses that include properties, food manufacturing, and healthcare products. He has been a director of Weida Medical Applied Technology Company Limited ("Weida"), a company that is principally engaged in the manufacturing and sales of medical equipments. Weida is listed on the Shenzhen Stock Exchange. Mr. Wu resigned from Weida's board of directors in 2003, but he has kept a keen interest in biotechnology, in particular, biopharmaceuticals. Mr. Wu has been indispensable to the Company during its recovery phase and in its new development phase. He joined the Company in 2004.

Mr. Zhao Tie Liu, aged 50, is an Executive Director and the Managing Director of the Company. Mr. Zhao graduated from Tianjin University of Finance and Economics with a Bachelor degree of Economics in 1984 and obtained a Master degree in Business Administration from Oklahoma City University, the United States of America in 1990. Since then, Mr. Zhao had held positions in Tianjin University of Finance and Economics as lecturer, the Department of Accounting as deputy dean, and as division director of the Futures Supervision Division and Intermediary Supervision Division of China Securities Regulatory Commission at the Tianjin Regulatory Bureau. From early 2001 to the end of 2003, Mr. Zhao was the president of Weida and was responsible for overseeing the operation of Weida and formulating its overall corporate strategy. He joined the Company in 2004 and was responsible for the successful establishment of the subsidiary of the Company, Tianjin Jinshun Pharmaceutical Co. Ltd. ("Tianjin Jinshun") in 2005, as well as the upgrading and expansion of its business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhou Haijun, aged 75, is an Independent Non-executive Director of the Company. He graduated from Suzhou Tung Wu University. He was formerly the Director of the National Institute for the Control of Pharmaceutical and Biological Products, the PRC from 1983 to 1999. At Present, Professor Zhou is a member of the Expert Committee on Biological Standardisation of the World Health Organisation, the Honorary President of National Institute for the Control of Pharmaceutical and Biological Products, the PRC and the Honorary President of Chinese Pharmaceutical Association. Professor Zhou, an acknowledged authority and source of information on pharmaceuticals and biopharmaceuticals in the PRC. He has made great contribution to the Company in the past and the Company believes that his particular skills and experience will allow him to continue to do so in the future. Mr. Zhou joined the Company in 2001.

Mr. Xu Zhi, aged 35, is an Independent Non-executive Director of the Company. Mr. Xu graduated from Hangzhou Institute of Electronic Engineering with a Bachelor degree in Economics in 1993. Mr. Xu is a certified public accountant and a certified public tax agent in the PRC as well as an international certified internal auditor. Mr. Xu has extensive experience in auditing PRC companies, both listed and unlisted. He is at present a department manager of a PRC consulting firm which provides quantitative surveying services for building materials. Mr. Xu jointed the Company in 2004.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Quing Fah, aged 45, is an Independent Non-executive Director of the Company. Mr, Xu graduated from the Tianjin Finance & Economics University. Since 1985, Mr. Xu had held positions in different banks, namely, People's Bank of China, China Merchants Bank, Everbright Bank and had gained experience in the areas of internal audit, credit control, international affairs, general bankings and management. At the moment, he is the Executive Director, Senior Assistant General Manager of Synergy Capital International Limited. Mr Xu wrote many financial and banking articles which were published in different journals in China. He also served as members of many financial interest groups in China. Mr. Xu joined the Company in 2008.

SECRETARY

Ms. Ho Suk Yin Nancy, aged 57, is the Company Secretary of the Company. Miss Ho is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Institute of Chartered Secretaries and Administrators in UK. Miss Ho has extensive experience in auditing, financial accounting, general management and corporate finance.

SENIOR MANAGEMENT

Mr. Zeng Zhi Liang, aged 36, is the director of Tianjin Jinshun. Mr. Zeng graduated from South China University of Science and Technology with a Diploma in Computer and Application. Mr. Zeng also holds a Diploma in Business Administration from Huazhong University of Science and Technology in 2004. Before joining the Group, Mr. Zeng was the deputy manager of the customer service department of the Hotung branch of the Agricultural Bank of China. Mr. Zeng has extensive experience in bank accounting, money management and customer service. Mr. Zeng's primary responsibility in Tianjin Jinshun is to assist in bank affairs and finance related matters, as well as with investor and customer relationships. He joined the Group in 2005.

Mr. Zhao Geng, aged 45, is the director and a deputy general manager of Tianjin Jinshun. Mr. Zhao graduated in 1984 from the School of Pharmacy of the former Tianjin Second Medical College (now known as Tianjin Medical University). During 1984 to 1993, Mr. Zhao taught in the School of Pharmacy at the Tianjin Medical University as a lecturer. During 1993 to 2003, he worked as a business manager of Tianjin Zhongyao Group. Prior to the establishment of Tianjin Jinshun in 2005, Mr. Zhao was the business manager of the Tianjin Shi Yi Yao Company Jin Shun Branch Company. He was appointed as a director of Tianjin Jinshun in September 2005 and is responsible for marketing pharmaceutical products and supervision of the sales team. His specialties are antibiotics, paranteral nutritions and neurocardiovascular drugs. Mr. Zhao is well known in the Tianjin pharmaceutical business and has been dealing with the local government pharmaceutical regulatory units, hospitals and drug wholesalers/retailers since 1993. Based on his experience, Mr. Zhao's responsibilities at Tianjin Jinshun are marketing and as well as tenders. Mr. Zhao joined the Group in 2005.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Wei, aged 46, the director and a deputy general manager of Tianjin Jinshun. Mr. Zhang holds a Master degree of Business Administration from Tianjin Polytechnic University in the PRC. During 1982– 2003, Mr. Zhang worked for various pharmaceutical companies and has more than 17 years of experience in dealing pharmaceutical products from drug manufacturers worldwide. From 2003 until joining Tianjin Jinshun in 2005, he worked as a business manager at Tianjin Shi Yi Yao Company Jin Shun Branch Company. Mr. Zhang is well known in the Tianjin pharmaceutical business and has extensive experience in the marketing of pharmaceuticals and the obtaining of dealership rights from foreign drug manufacturers which the Company believes will be invaluable to the future success of Tianjin Jinshun. Mr. Zhang joined the Group in 2005 and is responsible for marketing pharmaceutical products, supervision of the sales team and preparing tenders.

Ms. Guan Jun, aged 53, a deputy general manager of Tianjin Jinshun. Ms. Guan is a licensed pharmacist in the PRC, which entitles her to control and/or manage a drug business independently. She graduated with a chemistry degree from Tianjin Nankai University in 1983. In 1992, she studied at the School of Pharmacy at the former Tianjin Second Medical College (now known as Tianjin Medical University). Ms. Guan joined the People's Liberation Army in 1970 and worked in drug units of different Army medical units for more than 30 years. She has extensive experience in the manufacturing, distribution, usage and quality control of pharmaceuticals. Ms. Guan joined the Group in 2005 and is responsible for quality control and Good Supply Practice of pharmaceutical products of Tianjin Jinshun.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report together with the audited financial statements of Sanyuan Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment and pharmaceutical/healthcare business. The principal activities and other particulars of the subsidiaries are set out on page 64.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2007, the five largest suppliers of the Group accounted for approximately 26.2% of the Group's total purchases while the five largest customers of the Group accounted for approximately 44.5% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 8.9% of the Group's total purchases whilst the largest customer of the Group accounted for approximately 11.6% of the Group's total turnover. None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or the five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2007 are set out in the consolidated income statement on page 24 of this annual report.

No interim dividend was paid to the equity holders of the Company during the year.

The Board of Directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2007 (2006: Nil).

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	As at/For the year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	*(Restated)*	*Restated)*
Results					
Turnover	**165,676**	144,383	11,207	1,169	1,355
Profit from operations	**8,639**	3,979	12,544	225,898	125,949
Finance costs	**(3,813)**	(4,494)	(266)	(9,641)	(29,450)
Share of results of associates	**–**	–	–	–	31
Profit/(Loss) before income tax	**4,826**	(515)	12,278	216,257	96,530
Income tax	**(1,297)**	(969)	–	–	6
Profit/(Loss) for the year	**3,529**	(1,484)	12,278	216,257	96,536
Profit/(Loss) attributable to equity holders of the Company	**2,657**	(2,421)	12,278	217,547	96,232
Assets and liabilities					
Property, plant and equipment	**1,092**	549	600	643	424
Interest in associates	**–**	–	–	–	45
Net current assets/(liabilities)	**9,649**	(22,492)	(26,162)	(48,589)	(308,101)
Non current liabilities	**(24,880)**	–	–	–	–
Net liabilities	**(14,139)**	(21,943)	(25,562)	(47,946)	(307,632)
Capital and reserves					
Share capital	**19,078**	19,078	19,078	19,078	6,201
Reserves	**(47,082)**	(52,409)	(50,409)	(67,024)	(315,123)
Total equity attributable to equity shareholders of the Company	**(28,004)**	(33,331)	(31,331)	(47,946)	(308,922)
Minority interests	**13,865**	11,388	5,769	–	1,290
	(14,139)	(21,943)	(25,562)	(47,946)	(307,632)

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of share capital of the Company are set out in note 26 to the accompanying financial statements.

CONVERTIBLE NOTE

Details of the convertible note issued by the Company are set out in note 24 to the accompanying financial statements.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 26(b) to the accompanying financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 27 to the accompanying financial statements respectively. In the opinion of the Directors, the Company had no reserves available for distribution to equity shareholders at 31 December 2007 (2006: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2007.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 17 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 15 to the accompanying financial statements.

BORROWINGS

Particulars of borrowings as at 31 December 2007 are set out in note 23 to the accompanying financial statements.

BORROWING COST CAPITALISATION

No borrowing cost was capitalised by the Group during the year (2006: Nil).

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive:

Mr. Wu Kwai Yung *(Chairman)*

Mr. Zhao Tie Liu (Managing Director)

Mr. Leung Hon Man *(resigned on 17 December 2007)*

Dr, Wan Kwong Kee *(resigned on 3 April 2007)*

Independent Non-executive:

Mr. Zhou Haijun

Mr. Ng Wai Hung *(resigned on 1 October 2007)*

Mr. Xu Zhi

Mr. Xu Quing Fah *(appointed on 22 April 2008)*

In accordance with article 103 of the Company's Articles of Association, Messrs. Zhou Haijun and Xu Zhi retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

According to article 94 of the Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at such meeting. Mr. Leung Hon Man resigned on 17 December 2007.

The appointments of two of the Independent Non-executive Directors are not for specific terms. They are subject to retirement by rotation in accordance with the Company's Articles of Association. Mr. Ng Wai Hung resigned on 1 October 2007 and his position was filled by Mr. Xu Quing Fah on 22 April 2008.

None of the Directors has an unexpired contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2007, the interests of the Directors and the Company's chief executive in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), or which were recorded in the register required to be kept under section 352 of the SFO, were as follows:

Name of Director/ Chief Executive	Number of ordinary shares held	Nature of interest	Percentage of issued share capital
Wu Kwai Yung	643,835,616	Corporate *(Note 1)*	67.5%
Wu Kwai Yung	176,470,588	Corporate *(Notes 1,2)*	18.5%
Zeng Zhiliang	54	Nominee *(Note 3)*	0.0%

Note:

(1) The corporate interest is held by Hong Jin Holdings Limited ("Hong Jin"), the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.

(2) 176,470,588 new shares will be issued to Hong Jin Holdings Limited upon conversion of the HK$30 million zero-coupon convertible note. By virtue of the SFO, Mr. Wu is deemed to have corporate interests in the 176,470,588 shares.

(3) Mr. Leung resigned on 17 December 2007 and Mr. Zeng was authorised to hold the fractions of the consolidated Shares arising from the share consolidation effective on 18 October 2002 in his place.

Save as disclosed above, as at 31 December 2007, none of the Directors or their associates had any personal, family, corporate or other interest in the equity securities or debentures of, or has a short position in shares in the relevant share capital of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including the interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to herein.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2007, the following interests (whether direct or indirect) of 5% or more of the Shares comprised in the share capital of the Company were recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Number of shares held	Approximate percentage of existing issued share capital of the Company
Hong Jin Holdings Limited	643,835,616 *(Note 1)*	67.5%
Hong Jin Holdings Limited	176,470,588 *(Note 2)*	18.5%

Notes:

(1) Hong Jin Holdings Limited, the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.

(2) 176,470,588 new shares will be issued to Hong Jin Holdings Limited upon conversion of the HK$30 million zero-coupon convertible note. By virtue of SFO, Hong Jin Holdings Limited is deemed to have interests in the 176,470,588 shares.

According to the register of interests in shares and short positions kept by the Company under section 336 of the SFO and so far as was known to the Directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 31 December 2007, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, former director of the Company and former director of such wholly-owned subsidiary, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK$11,250. On 31 March 2006, the tenancy agreement was further extended to 30 September 2006 with monthly rental remain unchanged. No more tenancy agreement was renewed after 30 September 2006 even the property was still used and occupied by the wholly-owned subsidiary up to 15 April 2007. During the year, the wholly-owned subsidiary paid rental expenses to Dr. Wan Kwong Kee of HK$39,000 (2006: HK$135,000). This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33 (3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

Apart from the foregoing, no contract of significance to which the Company or any of its subsidiaries was a party, in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required by the Listing Rules.

AUDITORS

The accompanying financial statements were audited by CCIF CPA Limited. A resolution for the appointment of CCIF CPA Limited as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board,
Wu Kwai Yung
Chairman

Hong Kong, 28 April 2008

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report, except with the following deviations:

Code provision A.4.1 of the CG Code stipulates that the independent non-executive directors of the Company are not appointed for specific terms. However, all directors (executive and independent non-executive) are subject to retirement by rotation in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the Annual General Meeting. Owing to an important commitment overseas, the chairman of the board of the Company, Mr. Wu Kwai Yung, has given an apology for not presiding the 2007 Annual General Meeting. Hence, he has appointed the Managing Director, Mr. Zhao Tie Liu to preside the 2007 Annual General Meeting on his behalf. The chairman of the board of the Company, Mr. Wu, will endeavor to attend future Annual General Meetings of the Company unless any exceptional circumstances occur.

BOARD OF DIRECTORS

As at 31 December 2007, the Board consists of four Directors. Two of them were Executive Directors, namely Mr. Wu Kwai Yung and Mr. Zhao Tie Liu and the remaining two were Independent Non-executive Directors, namely Mr. Zhou Haijun and Mr. Xu Zhi.

Biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" in the Annual Report.

According to the Articles of Association of the Company, all directors appointed to fill a casual vacancy or as an addition to the Board should be subject to election at the first general meeting after their appointment. All directors should also be subject to retirement by rotation pursuant to the Articles of Association of the Company.

The Board is responsible for setting corporate strategies and policies of the Group. Business operation and daily management are delegated by the Board to the Executive Directors, the executive management under the supervision of the Board. Under the supervision and direction of the Executive Directors, the business plans and strategies are being implemented and executed.

CORPORATE GOVERNANCE REPORT

Board meetings are called and convened as required to discuss Group's business and transactions. During the year, board meetings held and attendance record are set out as follows:

Executive Directors	**Attended**
Mr. Wu Kwai Yung	6(7)
Mr. Zhao Tie Liu	7(7)
Dr. Wan Kwong Kee (resigned on 3 April 2007)	1(1)
Mr. Leung Hon Man (resigned on 17 December 2007)	4(5)
Independent Non-executive Directors	
Mr. Zhou Haijun	1(7)
Mr. Ng Wai Hung (resigned on 1 October 2007)	0(7)
Mr. Xu Zhi	1(7)

Within the Board, there are three Independent Non-executive Directors with very much experience in legal and pharmaceutical industry and one of them has accounting and financial management expertise. As such, the Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and considers each of the Independent Non-executive Directors to be independent.

None of the Directors has any financial, business, family relationships with each other.

ROLES OF CHAIRMAN AND MANAGING DIRECTOR

Mr. Wu Kwai Yung is the Chairman of the Board and Mr. Zhao Tie Liu is the Managing Director of the Company. There is a clear distinction between the responsibilities of the Chairman and the Managing Director. The primary responsibilities of the Chairman are leading the Board and ensuring the Board operates effectively. The Managing Director is responsible for managing the business of the Group and overseeing the day-to-day operation of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee was established in April 2005 and comprises two Independent Non-executive Directors and one Executive Director. As at 31 December 2007, the members of the Remuneration Committee were as follows:

Mr. Zhou Haijun	*(Member, Independent Non-executive Director)*
Mr. Ng Wai Hung	*(Member, Independent Non-executive Director – resigned on 1 October 2007)*
Mr. Xu Zhi	*(Member, Independent Non-executive Director)*
Mr. Zhao Tie Liu	*(Member, Executive Director)*
Dr. Wan Kwong Kee	*(Member, Executive Director – resigned on 3 April 2007)*

The Remuneration Committee has adopted a set of terms of reference which is in line with the CG Code. The duties of the Remuneration Committee include the following:

(i) to make recommendations on the Group's policy and structure for the remuneration of the Directors and senior management;

(ii) to determine the remuneration packages of the Directors and senior management; and

(iii) to review and approve performance-based remuneration.

No Director or any of his associates will involve in deciding his own remuneration.

The remuneration package and policy of the Company primarily consist fixed base salary, discretionary bonus and share options. Details of emoluments of the Directors for the year are disclosed in note 10 to the financial statements.

During the year, a meeting of the Remuneration Committee was held to review the remuneration policy and package of the Group.

AUDIT COMMITTEE

The Audit Committee was established in September 1999. In April 2005, the Company adopted a set of new terms of reference which is in line with the CG Code and set out the authority and duties of the Audit Committee.

CORPORATE GOVERNANCE REPORT

The committee has three members and all of them are Independent Non-executive Directors:

Mr. Zhou Haijun	*(Chairman, Independent Non-executive Director)*
Mr. Ng Wai Hung	*(Member, Independent Non-executive Director-resigned on 1 October 2007)*
Mr. Xu Zhi	*(Member, Independent Non-executive Director)*
Mr. Xu Quing Fah	*(Member, Independent Non-executive Director-appointed on 22 April 2008)*

During the year, the Audit Committee met once and the attendance record are set out as follows:

Independent Non-executive Directors	**Attended**
Mr. Zhou Haijun	1
Mr. Ng Wai Hung	1
Mr. Xu Zhi	1
In attendance	
Mr. Zhao Tie Liu	1
External auditors	1
Leung Hon Man (Secretary to the audit committee – resigned on 17 December 2007)	1

In these meetings, the Audit Committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the years ended 31 December 2005,2006 and 2007, together with the unaudited interim financial statements for the period ended 30 June 2006. At the request of the committee, the Group's external auditors have been engaged to carry out the audit of the audited annual financial statements and the review of the unaudited interim financial statements.

NOMINATION OF DIRECTORS

The Board is responsible for considering suitability of a candidate for directorship and making decision of appointing a director. Board meeting will be convened to discuss nomination of directors. The Board will review the qualifications of the candidate on the basis of his/her qualifications, experience, background, expertise and knowledge as well as the requirements under the Listing Rules.

During the year, the company recorded the following resignations:

Dr. Wan Kwong Kee (Executive Director – resigned on 3 April 2007)
Mr. Ng Wai Hung (Independent Non-executive Director – resigned on 1 October 2007)
Mr. Leung Hon Man (Executive Director – resigned on 17 December 2007)

As at the date of the issue of this Report, Mr. Xu Quing Fah was appointed as Independent Non-executive Director on 22 April 2008.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2007.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

CCIF CPA Limited were appointed the Auditors of the Company and its subsidiaries, the annual financial statements for the year ended 31 December 2007 have been audited by them. During 2007, audit fee incurred by the Group amounted to approximately HK$500,000. Non-audit services fee which was related to review services and preparation of comfort letters amounted to approximately HK$265,000.

FINANCIAL REPORTING AND INTERNAL CONTROL

Statements about the respective responsibilities of the Directors and Auditors on the preparation of the financial statements are set out in the Independent Auditor's Report. The Directors acknowledge that they are responsible for preparing the financial statement for the year ended 31 December 2007 and the financial statements have been prepared on a going concern basis.

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group to achieve business objective, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives. The internal control system is subject to the review of the Audit Committee.

During the year, the Board has reviewed with the Audited Committee the system of internal control of the Group.

COMMUNICATION WITH SHAREHOLDERS

The Board believes that general meetings are important occasions for communication and exchanging views with the shareholders. At the forthcoming annual general meeting, separate resolutions will be proposed for each substantially separate issue, including the re-election of individual retiring Directors.

In addition to the biographies of each of the Directors to be re-elected at the annual general meeting, procedures for and the rights of the shareholders to demand a poll are also included in the Company's circular to be despatched to the shareholders.

INDEPENDENT AUDITOR'S REPORT

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
SANYUAN GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Sanyuan Group Limited (the "Company") set out on pages 24 to 86, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

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

Without qualifying our opinion, we draw attention to note 2(b) to the financial statements which indicates that the Group reported consolidated net liabilities of HK$14,139,000. This condition, along with other matters as set forth in note 2(b) to the financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 28 April 2008

Sze Chor Chun, Yvonne
Practising Certificate Number P05049

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Turnover	7	**165,676**	144,383
Cost of sales		**(159,192)**	(138,039)
Gross profit		**6,484**	6,344
Other revenue	8	**5,067**	4,047
Other income	8	**7,295**	5,271
Selling and distribution costs		**(840)**	(543)
General and administrative expenses		**(9,367)**	(10,774)
Other operating expenses		**–**	(366)
Profit from operations		**8,639**	3,979
Finance costs	9 (a)	**(3,813)**	(4,494)
Profit/(loss) before income tax	9	**4,826**	(515)
Income tax	12	**(1,297)**	(969)
Profit/(loss) for the year		**3,529**	(1,484)
Profit/(loss) attributable to:			
Equity shareholders of the Company	13	**2,657**	(2,421)
Minority interests		**872**	937
		3,529	(1,484)
Dividends		**–**	–
Earnings/(loss) per share	14		
Basic		**HK0.28 cents**	(HK0.25 cents)
Diluted		**N/A**	N/A

The notes on pages 30 to 86 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**1,092**	549
Available-for-sale investment	16	**–**	–
		1,092	549
Current assets			
Inventories	18	**7,036**	4,781
Trade and other receivables	19	**51,125**	30,522
Financial assets at fair value through profit or loss	20	**–**	272
Cash and cash equivalents	21	**9,009**	13,230
		67,170	48,805
Current liabilities			
Trade and other payables	22	**35,688**	25,773
Borrowings	23	**5,951**	1,444
Convertible note	24	**–**	26,544
Provisions	25	**14,964**	17,402
Tax payable		**918**	134
		57,521	71,297
Net current assets/(liabilities)		**9,649**	(22,492)
Total assets less current liabilities		**10,741**	(21,943)
Non-current liabilities			
Convertible note	24	**(24,880)**	–
Net liabilities		**(14,139)**	(21,943)
Capital and reserves attributable to the equity shareholders of the Company			
Share capital	26	**19,078**	19,078
Reserves		**(47,082)**	(52,409)
		(28,004)	(33,331)
Minority interests		**13,865**	11,388
Total equity		**(14,139)**	(21,943)

On behalf of the Board

Wu Kwai Yung
Director

Zhao Tie Liu
Director

The notes on pages 30 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

		Attributable to equity shareholders of the Company									
	Share Capital HK$'000	Share premium HK$'000 (note 27(a))	Capital reserve HK$'000 (note 24)	General reserve HK$'000	Special capital reserve HK$'000 (note 27(b))	Exchange fluctuation reserve HK$'000 (note (a))	Statutory common reserve HK$'000 (note 27(d))	Accumulated losses HK$'000	Total reserves HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	19,078	34,123	4,337	200	22,853	–	–	(111,922)	(50,409)	5,769	(25,562)
Exchange differences on translation of financial statements of a subsidiary	–	–	–	–	–	421	–	–	421	–	421
Loss for the year	–	–	–	–	–	–	–	(2,421)	(2,421)	937	(1,484)
Capital injection by minority shareholders in a subsidiary	–	–	–	–	–	–	–	–	–	4,682	4,682
Appropriation	–	–	–	–	–	–	88	(88)	–	–	–
At 31 December 2006	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(52,409)	11,388	(21,943)
At 1 January 2007	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(52,409)	11,388	(21,943)
Exchange differences on translation of financial statements of a subsidiary	–	–	–	–	–	1,634	–	–	1,634	–	1,634
Adjustment of amortised cost of convertible note	–	–	1,036	–	–	–	–	–	1,036	–	1,036
Profit for the year	–	–	–	–	–	–	–	2,657	2,657	872	3,529
Capital injection by minority shareholders in a subsidiary	–	–	–	–	–	–	–	–	–	1,605	1,605
Appropriation	–	–	–	–	–	–	99	(99)	–	–	–
At 31 December 2007	19,078	34,123	5,373	200	22,853	2,055	187	(111,873)	(47,082)	13,865	(14,139)

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit/(loss) before income tax		**4,826**	(515)
Adjustments for:			
Interest income		**(1,654)**	(219)
Gain arising from changes in fair value of financial assets at fair value through profit or loss		**–**	(68)
Realised gain on disposal of financial assets at fair value through profit or loss		**(1,302)**	–
Property, plant and equipment written off		**19**	–
Gain on disposal of property, plant and equipment		**(105)**	–
Depreciation		**237**	305
Impairment loss (reversed)/recognised in respect of trade and other receivables		**(16)**	22
Waive of debts		**(1,546)**	–
Gain on adjustment of amortised cost of convertible note		**(4,326)**	(3,375)
Imputed interest on convertible note		**3,698**	4,256
Interest expenses		**26**	200
Operating (loss)/profit before working capital changes		**(143)**	606
Increase in inventories		**(2,255)**	(6)
Increase in trade and other receivables		**(20,587)**	(15,031)
Increase in trade and other payables		**11,461**	7,887
Decrease in provisions		**(2,438)**	(1,828)
Cash used in operations		**(13,962)**	(8,372)
Tax paid		**(550)**	(835)
Interest paid		**(26)**	–
NET CASH USED IN OPERATING ACTIVITIES		**(14,538)**	(9,207)
INVESTING ACTIVITIES			
Interest received		**1,654**	219
Proceeds from disposal of property, plant and equipment		**200**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**1,574**	–
Payment for acquisition of property, plant and equipment		**(872)**	(245)
New loan receivable		**(5,049)**	–
Repayment from loan receivable		**5,132**	–
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**2,639**	(26)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	**2007 HK$'000**	2006 HK$'000
FINANCING ACTIVITIES			
Capital injection by minority shareholders in a subsidiary		**1,605**	4,682
New borrowings		**6,145**	–
Repayment of borrowings		**(2,890)**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**4,860**	4,682
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(7,039)**	(4,551)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**13,230**	17,369
EFFECT OF FOREIGN CURRENCY TRANSLATION		**1,671**	412
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	*21*	**7,862**	13,230

The notes on pages 30 to 86 form part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**76**	43
Investments in subsidiaries	17	**–**	–
		76	43
Current assets			
Other receivables	19	**760**	178
Financial assets at fair value through profit or loss	20	**–**	272
Due from subsidiaries	17	**13,470**	13,390
Cash and cash equivalents	21	**65**	218
		14,295	14,058
Current liabilities			
Other payables	22	**5,567**	5,139
Due to a subsidiary	17	**7,596**	1,796
Borrowings	23	**–**	1,444
Convertible note	24	**–**	26,544
Provisions	25	**14,964**	17,402
		28,127	52,325
Net current liabilities		**(13,832)**	(38,267)
Total assets less current liabilities		**(13,756)**	(38,224)
Non-current liabilities			
Convertible note	24	**(24,880)**	–
Net liabilities		**(38,636)**	(38,224)
Capital and reserves attributable to the equity shareholders of the Company			
Share capital	26	**19,078**	19,078
Reserves	27	**(57,714)**	(57,302)
Total equity		**(38,636)**	(38,224)

On behalf of the Board

Wu Kwai Yung
Director

Zhao Tie Liu
Director

The notes on pages 30 to 86 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

1. GENERAL INFORMATION

Sanyuan Group Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in selling and trading of pharmaceutical products and laboratory testing service.

The Company is a limited liability company incorporated in Hong Kong and its registered office is Workshop 16, 18/F., New Commerce Centre, 19 On Sum Street, Shatin, New Territories, Hong Kong.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 April 2008.

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. They were also prepared in accordance with the Hong Kong Companies Ordinance and the Rules Governing the Listing Securities on the Stock Exchange. They have been prepared under the historical cost convention modified by the revaluation of certain assets as explained in the accounting policies in note 3 below, and on a going concern basis as explained in note 2(b) below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

(a) Basis of preparation *(Continued)*

(i) Standards, amendment and interpretations effective in 2007

- HKFRS 7, "Financial instruments: Disclosures", introduces new disclosures relating to financial instruments and the nature and extent of risks arising from those instruments. HKFRS 7 does not have any impact on the classification and valuation of the Group's financial instruments.

  The amendment to HKAS 1 "Presentation of financial statements – Capital disclosures requires expanded disclosures in respect of information of the Group's and the Company's capital and the objectives, policies and process for managing capital.

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. The standard does not have any impact on the Group's financial statements.

- HK(IFRIC)-Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(ii) Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HKFRS 4, "Insurance contracts";

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

(a) Basis of preparation *(Continued)*

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed by management, but it appears that the number of reportable segments, as well as the manner in which the segments are reported, will likely be changed in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments.

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

(a) Basis of preparation *(Continued)*

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

(iv) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions", effective for accounting periods beginning on or after 1 March 2007. HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group companies (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements. It is not relevant for the Group's operations because none of the group companies have such transactions.

- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant for the Group's operations because none of the group companies provides public sector services.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

(a) Basis of preparation *(Continued)*

(iv) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations (Continued)

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008). HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant for the Group's operations because none of the group companies operate any loyalty programmes.

(b) Material uncertainties in respect of going concern

The consolidated financial statements of the Group have been prepared in accordance with HKFRS. One underlying assumption under HKFRS is that the financial statements are prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.

As of 31 December 2007, the Group had net liabilities of HK$14,139,000 (2006: HK$21,943,000). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Nevertheless, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of directors, the liquidity of the Group can be maintained in the coming year, after taking into account several measures adopted and to be adopted subsequent to the balance sheet date as further detailed below:

(i) Hong Jin Holdings Limited ("Hong Jin"), the parent and ultimate holding company of the Company in which Mr. Wu Kwai Yung held 70% beneficial interest, has committed to provide financial support to enable the Group to meet in full its liabilities as they fall due, both present and future;

(ii) the directors are currently looking into the cases as mentioned in note 25(a)(ii) and (b) and seeking legal advice as to the possible outcome and appropriate course of action to be taken in relation to these two cases with the provision of HK$14,850,000 already provided as at the balance sheet date; and

(iii) the directors are planning to adopt various cost control measures to reduce various general and administrative and other operating expenses.

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

(b) Material uncertainties in respect of going concern *(Continued)*

In the opinion of the directors, in light of the measures adopted, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. In addition, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun"), the 60% subsidiary of the Group, is engaged in trading of pharmaceutical products and the business of which formed the major business activitives for the Group as a whole. The directors believe that the future funding generated from Tianjin Jinshun will sufficiently improve the financial and cash flow position and maintain the Group's ability to continue as a going concern. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions and minority interests

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests that result in gains and losses of the Group that recorded in the consolidated income statement.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Segment reporting *(Continued)*

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

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

The results and financial position of all the group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that are recorded in equity are recognsied in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

(d) Property, plant and equipment

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

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

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

Leasehold improvements	Over the lease terms
Furniture and fixtures	20% to 30%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal are determined by comparing the proceeds with the carrying amount, and are recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Financial assets

The Group classified its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investment are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in income statement; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling prices in the ordinary course of business, less applicable selling expenses.

(h) Trade and other receivables

Trade and other receivables are recongised initially at fair value and subsequently measured at amoritised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

(i) Cash and cash equivalents

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

(j) Share capital

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowings

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

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

(m) Convertible notes

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

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

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

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

(n) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as at the balance sheet date in the countries where the group companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Current and deferred income tax *(Continued)*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognsied to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Employee benefits

(i) Retirement benefits scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operates in the mainland of the People's Republic of China ("PRC") are required to participate in a pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the pension scheme.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Employment leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee's services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognised the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Provisions *(Continued)*

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(q) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) laboratory testing service income is recognised in the period when services are rendered;

(iii) interest income, on a time proportion basis using the effective interest method;

(iv) subsidy income is recognised as revenue when there is reasonable assurance that it will be received, and

(v) guarantee income is recognised on an accruals basis in accordance with the substance of the relevant agreement.

(r) Borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Borrowing costs *(Continued)*

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

(s) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(t) Dividend distribution

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

(u) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Related parties

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

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and convertible note. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Credit risk

(i) As at 31 December 2007, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowances.

(ii) In respect of trade and other receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and conditions are performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 30 to 180 days from the date of billing.

(iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. As at the balance sheet date, the Group has a certain concentration of credit risk as approximately 25% (2006: 27%) and 48% (2006: 59%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively. The Group's customers are mainly public hospitals in PRC which the Group believes they have reliable credit standing. Taking into account the creditworthiness of the Group's customers and the past history of settlement, the credit risk measures and the historical levels of the bad debts, the directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has available un-utilised banking facilities of approximately HK$17,752,000 (2006: HK$ Nil), details of which are disclosed in note 23(a).

The following liquidity risk table set out the remaining contractual maturities as at the balance sheet date of the Group's and the Company's financial liabilities based on the contractual undiscounted cash flows and the earliest date the Group and the Company required to pay.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Liquidity risk *(Continued)*

	2007				2006		
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000
The Group							
Trade and other payables	**35,688**	**(35,688)**	**(35,688)**	**–**	25,773	(25,773)	(25,773)
Borrowings	**5,951**	**(5,951)**	**(5,951)**	**–**	1,444	(1,444)	(1,444)
Convertible note	**24,880**	**(30,000)**	**(4,032)**	**(25,968)**	26,544	(30,000)	(30,000)
	66,519	**(71,639)**	**(45,671)**	**(25,968)**	53,761	(57,217)	(57,217)
The Company							
Other payables	**5,567**	**(5,567)**	**(5,567)**	**–**	5,139	(5,139)	(5,139)
Due to a subsidiary	**7,596**	**(7,596)**	**(7,596)**	**–**	1,796	(1,796)	(1,796)
Borrowings	**–**	**–**	**–**	**–**	1,444	(1,444)	(1,444)
Convertible note	**24,880**	**(30,000)**	**(4,032)**	**(25,968)**	26,544	(30,000)	(30,000)
	38,043	**(43,163)**	**(17,195)**	**(25,968)**	34,923	(38,379)	(38,379)

(c) Interest rate risk

(i) Exposure to interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see notes 23 and 24 for details of these borrowings and convertible note). The Group is also exposed to cash flow interest rate risk in relation to variable-rate other borrowings (see note 23 for details of this borrowings). Cash flow interest rate risk in relation to bank balances and deposits is considered insignificant, interest rate risk is managed by the directors of the Company on an ongoing basis with the primary objective of limiting extent to which interest expense could be affected by adverse movement in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2007 would decrease/increase by approximately HK$ Nil (2006: HK$14,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate other borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the full repayment of variable-rate borrowing during the year.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred as at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(d) Currency risk

The Group has an investment in foreign operations, whose net assets are exposed to foreign currency translation risk. Presently, there is no hedging policy with respect to the Group's foreign exchange exposure. The Group's transactional currency is mainly RMB as substantially most of the turnover are in RMB. The Group's transactions foreign exchange exposure was insignificant.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's exposure as at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade and other receivables	**50,300**	30,239
Cash and cash equivalents	**7,332**	11,452
Trade and other payables	**(35,723)**	(23,202)
Borrowings	**(5,952)**	–
Overall net exposure arising from recognised assets and liabilities	**15,957**	18,489

(ii) Sensitivity analysis

During the year ended 31 December 2007, if RMB has strengthened/weakened by 5% against the HK$, with all other variable held constant, equity would have been approximately HK$798,000 (2006: HK$924,000), higher and lower and profit for the year would have been approximately HK$109,000 (2006: HK$117.000), higher and lower.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except as follows:

	2007		2006	
	Carrying amount HK'000	**Fair value HK'000**	Carrying amount HK'000	Fair value HK'000
Convertible note	**24,880**	**24,881**	26,544	26,544

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

(i) *Securities*

Fair value is based on listed market price as at the balance sheet date without any deduction for transaction costs.

(ii) *Interest-bearing loans and borrowings*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Going concern and liquidity

The Group has consolidated net liabilities of approximately HK$14,139,000 at 31 December 2007, along with other matters as set forth in note 2(b) to the financial statements, indicating the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are taking measures to improve the liquidity position of the Group and details are set out in note 2(b). The consolidated financial statements have been prepared on a going concern basis. Should the measures fail to improve the liquidity position of the Group and the Group is unable to continue in business as a going concern, adjustments would have to be made to reduce the carrying amounts of the assets of the Group to their recoverable amount and to provide for further liabilities which might arise.

(b) Impairments losses for bad and doubtful accounts

The policy for impairment losses for bad and doubtful debts of the Group is based on the evaluation of collectively and ageing analysis of receivable accounts on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate thus resulting in an impairment of their ability to make payments, additional allowances for impairment losses may be required.

6. SEGMENT INFORMATION

(a) Business segments

No separate analysis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of pharmaceutical and healthcare business.

(b) Geographical segments

All of the activities of the Group are based in PRC and all of the Group's turnover and profit before income tax are derived from PRC. Accordingly, no geographical segment information is presented.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

7. TURNOVER

Turnover represents revenue arising on sales of pharmaceutical products and laboratory testing services.

	2007 HK$'000	2006 HK$'000
Sales of pharmaceutical products	**165,397**	143,168
Laboratory testing service income	**279**	1,215
	165,676	144,383

8. OTHER REVENUE AND OTHER INCOME

	2007 HK$'000	2006 HK$'000
Other revenue		
Interest income	**1,654**	219
Guarantee income	**3,028**	2,775
Subsidy income	**367**	863
Others	**18**	190
	5,067	4,047
Other income		
Impairment loss reversed in respect of trade and other receivables	**16**	–
Reversal of provisions, net	**–**	1,828
Gain on adjustment of amortised cost of convertible note	**4,326**	3,375
Gain arising from changes in fair value of financial assets at fair value through profit or loss	**–**	68
Gain on disposal of property, plant and equipment	**105**	–
Realised gain on disposal of financial assets at fair value through profit or loss	**1,302**	–
Waive of debts by other payables	**1,546**	–
	7,295	5,271

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging the following:

		2007 HK$'000	2006 HK$'000
(a)	**Finance costs**		
	Interest expenses on other borrowing wholly repayable within five years	**26**	200
	Interest expenses on bank borrowing wholly repayable within five years	**77**	–
	Imputed interest on convertible note	**3,698**	4,256
	Other finance charges	**12**	38
		3,813	4,494
(b)	**Staff costs**		
	Salaries, wages and allowances (including directors' remuneration as disclosed in note 10)	**2,842**	4,219
	Retirement benefits scheme contribution	**79**	110
		2,921	4,329
(c)	**Other items**		
	Auditors' remuneration		
	– audit services	**500**	403
	– other services	**265**	668
		765	1,071
	Cost of inventories	**159,192**	138,039
	Depreciation	**237**	305
	Guarantee fee	**–**	366
	Minimum lease payments under an operating lease in respect of land and buildings	**934**	1,280
	Impairment loss recognised in respect of trade and other receivables	**–**	22
	Provision for employee benefits	**37**	–
	Net foreign exchange loss	**389**	134
	Property, plant and equipment written off	**19**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

10. DIRECTORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Directors' emoluments

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

		Year ended 31 December 2007			
Name of directors	*Note*	**Directors' fees HK$'000**	**Salaries, wages and other benefits in kind HK$'000**	**Contribution to defined contribution retirement plan HK$'000**	**Total HK$'000**
Chairman					
Mr. Wu Kwai Yung		–	92	6	98
Executive directors					
Mr. Zhao Tie Liu		–	187	12	199
Dr. Wan Kwong Kee	*(i)*	–	133	3	136
Mr. Leung Hon Man	*(iii)*	–	244	12	256
Independent non-executive directors					
Mr. Zhou Haijun		80	–	–	80
Mr. Ng Wai Hung	*(ii)*	60	–	–	60
Mr. Xu Zhi		80	–	–	80
		220	656	33	909

10. DIRECTORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Name of directors	Note	Directors' fees HK$'000	Salaries, wages and other benefits in kind HK$'000	Contribution to defined contribution retirement plan HK$'000	Total HK$'000
		Year ended 31 December 2006			
Chairman					
Mr. Wu Kwai Yung		–	110	6	116
Executive directors					
Mr. Zhao Tie Liu		–	351	12	363
Dr. Wan Kwong Kee	*(i)*	–	600	12	612
Mr. Leung Hon Man	*(iii)*	–	67	1	68
Independent non-executive directors					
Mr. Zhou Haijun		80	–	–	80
Mr. Ng Wai Hung	*(ii)*	80	–	–	80
Mr. Xu Zhi		80	–	–	80
		240	1,128	31	1,399

Note:

(i) resigned on 3 April 2007.

(ii) resigned on 1 October 2007.

(iii) resigned on 17 December 2007.

The Company did not grant any share options during the current and prior years.

As at the balance sheet dates, no share options were held by directors of the Company. The details of the share options are set out in note 26(b) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

10. DIRECTORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, two (2006: two) were directors of the Company whose emoluments are included in the disclosures in note 10(a) above. The emoluments of the remaining three (2006: three) individuals were as follows:

	2007	2006
	HK$'000	HK$'000
Salaries, wages and other benefits in kind	**457**	765
Contribution to defined contribution retirement plan	**20**	30
	477	795

Their emoluments were all within HK$1,000,000.

(c) During the year, no emoluments or incentive payments were paid to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

(d) During the year, certain directors and managements waived emoluments of HK$246,000 (2006: HK$758,000) as follows:

	2007	2006
	HK$'000	HK$'000
Mr. Wu Kwai Yung	**30**	25
Mr. Zhao Tie Liu	**105**	312
Dr. Wan Kwong Kee	**29**	154
Mr. Leung Hon Man	**82**	267
	246	758

11. RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the consolidated income statement represent contributions payable by the Group to the retirement benefits scheme and amounted to HK$79,000 (2006: HK$110,000). Contributions amounted to HK$10,000 (2006: HK$27,000) were payable to the retirement benefits scheme as at 31 December 2007 and 2006 and are included in trade and other payables. No forfeited contributions were utilised and no forfeited contributions were available to reduce future contributions as at 31 December 2007 and 2006.

12. INCOME TAX

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

	2007 **HK$'000**	2006 HK$'000
Current tax		
Hong Kong	**–**	–
PRC Enterprise Income Tax	**1,047**	864
	1,047	864
Underprovision in respect of prior years		
Hong Kong	**–**	–
PRC Enterprise Income Tax	**250**	105
	250	105
	1,297	969

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2006: HK$Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

12. INCOME TAX *(Continued)*

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

Group

	2007	2006
	HK$'000	HK$'000
Profit/(loss) before income tax	**4,826**	(515)
Notional tax on profit/(loss) before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,383**	423
Tax effect of non-deductible expenses	**903**	1,182
Tax effect of non-taxable income	**(1,890)**	(1,638)
Tax effect of prior year's temporary differences recognised this year	**(13)**	5
Tax effect of utilisation of unused tax losses not recognised in prior years	**(1)**	–
Tax effect of unused tax losses not recognised	**665**	892
Under-provision in prior years	**250**	105
Income tax	**1,297**	969

(c) On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for the Group's PRC subsidiary, Tianjin Jinshun from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

In addition, under the New Law, a withholding tax may be applied on the gross amount of dividends received by the Company from its PRC subsidiaries after 1 January 2008. The Implementation Rules provides for the withholding tax rate to be at 10% unless reduced by treaty.

13. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity shareholders of the Company includes a loss of HK$1,448,000 (2006: HK$5,994,000) which has been dealt with in the financial statements of the Company (note 27).

14. EARNING/(LOSS) PER SHARE

(a) Basic

The calculation of basic earning/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$2,657,000 (2006: loss of HK$2,421,000) and the weighted average number of 953,906,963 ordinary shares (2006: weighted average number of 953,906,963 ordinary shares) in issue during the year.

(b) Diluted

Diluted earning/(loss) per share for the year ended 31 December 2007 and 2006 has not been disclosed as the potential ordinary shares outstanding during the years have an anti-dilutive effect on the basis loss per share for the years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Motor vehicles HK$'000	**Leasehold improvements, furniture and fixtures** HK$'000	**Total** HK$'000
Cost			
At 1 January 2006	–	2,325	2,325
Additions	124	121	245
Exchange adjustments	–	9	9
At 31 December 2006 and 1 January 2007	124	2,455	2,579
Additions	780	92	872
Disposals	–	(2,060)	(2,060)
Exchange adjustments	9	25	34
At 31 December 2007	913	512	1,425
Accumulated depreciation			
At 1 January 2006	–	1,725	1,725
Charge for the year	19	286	305
Exchange adjustments	–	–	–
At 31 December 2006 and 1 January 2007	19	2,011	2,030
Charge for the year	108	129	237
Written back on disposal	–	(1,946)	(1,946)
Exchange adjustments	5	7	12
At 31 December 2007	132	201	333
Net book value			
At 31 December 2007	781	311	1,092
At 31 December 2006	105	444	549

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Leasehold improvements, furniture and fixtures
	HK$'000
Cost	
At 1 January 2006	640
Additions	–
At 31 December 2006 and 1 January 2007	640
Additions	91
Disposals	(634)
At 31 December 2007	97
Accumulated depreciation	
At 1 January 2006	499
Charge for the year	98
At 31 December 2006 and 1 January 2007	597
Charge for the year	58
Written back on disposal	(634)
At 31 December 2007	21
Net book value	
At 31 December 2007	76
At 31 December 2006	43

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

16. AVAILABLE-FOR-SALE INVESTMENT

Group

	2007 HK$'000	2006 HK$'000
Unlisted investment		
At cost	–	3,362
Less: Impairment loss	–	(3,362)
	–	–

According to the settlement agreements between the Group and Bank of China (Hong Kong) Limited ("BOC") dated 30 June 2004 and 30 September 2004 (the "BOC Agreements"), BOC shall not take out or proceed with any claims against the Company for recovering the indebtedness owed by three former indirectly held subsidiaries of the Company ("Undischarged Debtors") on the condition that a court order for the winding up of the Undischarged Debtors would be obtained not later than 30 November 2005.

The winding-up orders were granted by the court and a provisional liquidator was appointed to take over the management of the Undischarged Debtors on 23 February 2005. Since then, the Group lost its influence over the affairs of the Undischarged Debtors and the financial statements of the Undischarged Debtors were classified as available-for-sale investments with effect from that date. On reclassification, the excess of liabilities over assets of the Undischarged Debtors as at 23 February 2005 of approximately HK$13,021,000 has been reversed and credited as income for the year ended 31 December 2005. The costs and provisions of interests in the Undischarged Debtors have been written off during the current and prior years upon completion of the winding up.

17. INTERESTS IN SUBSIDIARIES

Company

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**1,000**	1,000
Less: Impairment losses	**(1,000)**	(1,000)
	–	–
Due from subsidiaries	**85,656**	85,576
Less: Impairment losses	**(72,186)**	(72,186)
	13,470	13,390
Due to a subsidiary	**(7,596)**	(1,796)
	5,874	11,594

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(a) The balances with subsidiaries are unsecured, interest free and repayable on demand. Certain subsidiaries have not commenced business since their incorporation and there is no principal asset held by them. The recoverable amount of investments in and amounts due from these subsidiaries are determined based on value-in-use calculations. In view of the operating status and the net liabilities position of these subsidiaries, the directors decided that full impairment on the investment costs and amounts due from certain subsidiaries was required.

(b) Particulars of the principal subsidiaries of the Company as at the balance sheet dates are as follows:

Name	Place of incorporation/ registration	Place of operation	Issued and fully paid capital/ registered capital	Percentage of capital held by the Company 2007 Directly	2007 Indirectly	2006 Directly	2006 Indirectly	Principal activities
Beadle International Limited	British Virgin Island	Hong Kong	US$1	**100%**	**–**	100%	–	Investment holding
GenePro Medical Biotechnology Limited ("GenePro")	Hong Kong	Hong Kong	HK$1,000,000	**100%**	**–**	100%	–	Provision of DNA testing services
Ontex Investment Limited	Hong Kong	Hong Kong	HK$2	**100%**	**–**	100%	–	Provision of administrative services
Tianjin Jinshun ^	PRC	PRC	RMB30,000,000	**–**	**60%**	–	60%	Trading of pharmaceutical products

^ Sino-foreign owned equity joint venture

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INVENTORIES

Group

	2007 **HK$'000**	2006 HK$'000
Finished goods	**7,036**	4,781

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables *(note (a))*	**49,094**	30,212	**–**	–
Less: allowance for doubtful debts	**(24)**	(40)	**–**	–
	49,070	30,172	**–**	–
Other receivables, deposits and prepayments	**2,055**	350	**760**	178
	51,125	30,522	**760**	178

All of the trade and other receivables are expected to be recovered within one year.

Included in trade receivables is HK$266,000 (2006: HK$81,000) and HK$70,000 (2006: HK$Nil) due from a minority shareholder of a subsidiary and a related company respectively.

Notes:

(a) Ageing analysis

Included in trade and other receivables are trade receivables net of allowance for doubtful debts of HK$24,000 (2006: HK$40,000) with the following ageing analysis as of the balance sheet date:

	2007	2006
	HK$'000	HK$'000
Within 90 days	**40,270**	20,337
91 days to 180 days	**5,551**	8,023
181 days to 365 days	**3,246**	1,819
Over 365 days	**27**	33
	49,094	30,212

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(a) Ageing analysis *(Continued)*

Included in trade and other receivables in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

Group

	2007	2006
	'000	'000
Renminbi	**47,008**	30,381

(b) Impairment of trade receivables

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

Movements in the allowance of doubtful debts

Group

	2007	2006
	'000	'000
At 1 January	**40**	18
Impairment loss recognised	**–**	22
Amount reversed during the year	**(16)**	–
At 31 December	**24**	40

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Impairment of trade receivables *(Continued)*

Note:

(i) As at 31 December 2007, trade receivables of the Group amounting HK$24,000 (2006: HK$40,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 365 days as at the balance sheet date or were due from companies with financial difficulties. Accordingly, specific allowances for doubtful debts of HK$16,000 (2006: HK$ Nil) were recognised. The factors which the Group considered in determining whether these trade receivables were individually impaired include the following:

– significant financial difficulty of the debtor;
– receivables that have been outstanding for over 365 days;
– the Group granting to the debtor, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Group would not otherwise consider;
– it is becoming probable that the debtor will enter into bankruptcy or other financial reorganisation;
– observable data indicating that there is a measurable decrease in the estimated future cash flows from the debtor since their initial recognition, although the decrease cannot yet be identified including:
  - adverse changes in the payment status of debtors in the Group;
  - economic conditions that correlate with defaults on the trade receivables in the Group.

(ii) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period ranging from 30 to 180 days (2006: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Further details on the Group's credit policy is set out in note 4(a).

No cash deposits nor collateral had been placed by the related trade debtors with the Group (2006: HK$Nil)

(c) Trade receivables that are not impaired

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

Group

	2007 **HK$'000**	2006 HK$'000
Neither past due nor impaired	**45,821**	28,360
Less than 6 months past due	**3,246**	1,812
Over 6 months past due	**3**	–
	3,249	1,812
	49,070	30,172

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Trade receivables that are not impaired *(Continued)*

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

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

(d) Certain trade receivables with an aggregate carrying amounts of approximately HK$6,029,000 (2006: HK$Nil) are pledged to a bank for bank loan (note 23(a)) granted to the Group (note 33).

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group and Company

	2007	2006
	HK$'000	HK$'000
Equity securities listed in Hong Kong	–	272
Market value of listed securities	–	272

As at 31 December 2006, certain financial assets at fair value through profit or loss with carrying amount of approximately HK$255,000 were pledged to a securities broker for other loan (note 23(b)) granted to the Group (note 33).

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**9,009**	13,230	**65**	218
Cash and cash equivalents in the balance sheet	**9,009**	13,230	**65**	218
Bank overdraft *(note 23)*	**(1,147)**	–	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**7,862**	13,230	**65**	218

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

Group

	2007	2006
	'000	'000
Renminbi	**6,852**	11,506

Certain bank balances with an aggregate carrying amounts of approximately HK$631,000 (2006: HK$Nil) and HK$50,000 (2006: HK$50,000) are pledged to banks for bills payable (note 22(b)) granted to the Group and to secure corporate credit card account of the Group respectively (note 33).

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FOR THE YEAR ENDED 31 DECEMBER 2007

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables *(note (a))*	**17,926**	15,386	**–**	–
Bills payable *(note (b))*	**1,231**	–	**–**	–
Other payables and accruals	**3,312**	4,589	**2,646**	4,292
Due to directors *(note (c))*	**2,921**	847	**2,921**	847
Due to minority shareholders of a subsidiary *(note (d))*	**10,298**	4,951	**–**	–
	35,688	25,773	**5,567**	5,139

Included in trade payables are HK$Nil (2006: HK$615,000) and HK$234,000 (2006: HK$Nil) due to a minority shareholder of a subsidiary and a related company respectively.

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

Notes:

(a) The following is an ageing analysis of trade payables as at the balance sheet date:

Group

	2007	2006
	HK$'000	HK$'000
Within 90 days	**16,323**	13,532
91 days to 180 days	**970**	1,437
181 days to 365 days	**264**	302
Over 365 days	**369**	115
	17,926	15,386

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

22. TRADE AND OTHER PAYABLES *(Continued)*

Notes: (Continued)

(b) As at 31 December 2007, bills payable were secured by certain bank deposit of the Group with a carrying amount of approximately HK$631,000 (2006: HK$Nil) (note 21 and 33) and a property of a staff.

(c) Details of amounts due to directors are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Name of director				
Mr. Wu Kwai Yung	**1,236**	100	**1,236**	100
Mr. Zhao Tie Liu	**1,173**	111	**1,173**	111
Dr. Wan Kwong Kee	**–**	294	**–**	294
Mr. Leung Hon Man	**–**	50	**–**	50
Mr. Zhou Haijun	**162**	82	**162**	82
Mr. Ng Wai Hung	**190**	130	**190**	130
Mr. Xu Zhi	**160**	80	**160**	80
	2,921	847	**2,921**	847

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

(d) The balances with the minority shareholders of a subsidiary represented the temporary cash advance net of the expenses paid on behalf of the Group which is interest free, unsecured and repayable on demand.

(e) Included in trade and other payables in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

Group

	2007	2006
	'000	'000
Renminbi	**33,385**	23,311

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

23. BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loan, secured *(note (a))*	**4,804**	–	**–**	–
Bank overdraft, unsecured *(note 21)*	**1,147**	–	**–**	–
Other loan, secured *(note (b))*	**–**	1,444	**–**	1,444
	5,951	1,444	**–**	1,444

As at the balance sheet date, the borrowings were repayable as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**5,951**	1,444	**–**	1,444

23. BORROWINGS *(Continued)*

Notes:

(a) At 31 December 2007, the Group has total banking facilities amounted to HK$23,787,000 (2006: HK$ Nil) in which HK$4,804,000 (2006: HK$ Nil) of bank loans and HK$1,231,000 (2006: HK$ Nil) of bills payable (note 22) have been utilised. The bank loan bears interest at 6.48% per annum and has been fully settled subsequent to the balance sheet date. The balance was secured by certain trade receivables of the Group with an aggregate carrying amounts of approximately HK$6,029,000 (notes 19(d) and 33).

(b) The amount was due to a securities broker and bore interest at rates ranging from 14% to 15% per annum. The other loan was secured by certain financial assets at fair value through profit or loss of the Group with a carrying amount of approximately HK$255,000 (notes 20 and 33). The other loan was fully settled during the year.

(c) Included in borrowings in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

Group

	2007	2006
	'000	'000
Renminbi	**5,562**	–

24. CONVERTIBLE NOTE

On 28 September 2005, the Company issued a zero-coupon convertible note in the principal amount of HK$30,000,000 ("Note") to Hong Jin. The Note will be due on 7 December 2006 and the maturity date may be extended for further 12 months by Hong Jin at its sole discretion. The Note will be mandatory and automatically converted either on (i) the day on which the trading of the shares of the Company on the Stock Exchange resumes; or (ii) the day on which the Stock Exchange grants the listing of and permission to deal in the Conversion Shares (subject to conditions that neither Hong Jin nor the Company may reasonably object); or (iii) 1 December 2005, whichever comes last. If the Note were converted, the conversion price will be HK$0.17 per share and 176,470,588 new shares will be allotted by the Company upon full conversion.

On 7 April 2006, Hong Jin had exercised its discretion to extend the maturity date of the Note to 7 December 2007. On 6 December 2007, Hong Jin had further extended the maturity date of the Note to 31 March 2009. The Note had not been converted during the years ended 31 December 2007 and 2006.

The Notes was split into liability and equity components of HK$25,663,000 and HK$4,337,000 respectively upon initial recognition by recognising the liability component at its fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost and the equity component is recognised in the capital reserve. The fair value of the liability component of the Note was approximated to the carrying amount on 7 April 2006. However, in accordance with the valuation report prepared by an independent valuer, the fair value of the liability component of the Note on 6 December 2007 become HK$24,627,000 by applying the effective interest rate of 16.16% per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

24. CONVERTIBLE NOTE *(Continued)*

The movement of the liability component of the Note for the year is as follows:

Group and Company

	2007	2006
	HK$'000	HK$'000
Liability component at 1 January	**26,544**	25,663
Interest charge	**3,698**	4,256
Equity component	**(1,036)**	–
Gain on adjustment of amotised cost of convertible note	**(4,326)**	(3,375)
Liability component at 31 December	**24,880**	26,544
Analysed for reporting purposes as:		
Current liability	**–**	26,544
Non-current liability	**24,880**	–
	24,880	26,544

The fair value of the liability component of the Note at 31 December 2007 amounted to approximately HK$24,881,000. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 16.15% per annum.

25. PROVISIONS

Group and Company

	Legal claims (note a) HK$'000	Employee benefits HK$'000	Other (note b) HK$'000	Total HK$'000
At 1 January 2006	13,000	380	5,850	19,230
Charged to the income statement	(1,600)	(228)	–	(1,828)
At 31 December 2006 and 1 January 2007	11,400	152	5,850	17,402
Charged to the income statement	–	37	–	37
Used during the year	(2,400)	(75)	–	(2,475)
At 31 December 2007	9,000	114	5,850	14,964

(a) Legal claims

(i) On 5 February 1999, the Company issued a writ against an investment bank (the "Investment Bank") for (i) damages as a result of breaching a loan facility agreement dated 7 August 1998 of approximately HK$120,000,000 (the "Facility"); (ii) damages as a result of breaching fiduciary duties as arranger and joint financial advisor under an agreement dated 6 August 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13 November 1998 (the "Supplemental Deed"). On 23 March 1999, the Investment Bank issued a writ against the Company for interest of approximately HK$4,000,000 and overdue interest together with other administrative expenses for approximately HK$1,000,000 under the Facility and the Supplemental Deed. Of the HK$5,000,000 claim, the directors considered that the HK$1,000,000 claim was without merit. An amount of HK$4,000,000 had already been provided for the year ended 31 December 1999.

Both Company and Investment Bank had subsequently filed their respective defence together with list of supporting documents to the High Court of Hong Kong Special Administrative Region (the "Court") on 9 February 2001. Since then, the proceedings had been inactive and neither party took any substantive steps in the proceedings.

On 11 July 2005, the Court gave consequential directions to both parties including the filing of consolidated statement of claim, consolidated defence and counterclaim and consolidated reply and defence to counterclaim, discovery of documents and exchange of witness statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

25. PROVISIONS *(Continued)*

(a) Legal claims *(Continued)*

(i) *(Continued)*

Further on 6 December 2006, an agreement entered between the Company and the Investment Bank. The Company shall pay to the Investment Bank a sum of HK$2,250,000 together with interest of approximately HK$38,000 on or before 29 December 2006 which shall be deemed to have been in full and final settlement of the outstanding debt. However the Company defaulted the repayment of principal but only paid the interest on 29 December 2006.

Due to the failure of the repayment, the Investment Bank issued a writ against the Company for the breach of the settlement agreement on 15 February 2007. Further on 22 March 2007, after verbal negotiation with the Investment Bank, the Company's lawyer suggested to settle the case by ways of: (i) payment in the sum of HK$2,250,000; (ii) payment of interest of approximately HK$55,000 and (iii) payment of costs in the sum of HK$95,000 to the Investment Bank. On 23 March 2007, the Company repaid approximately HK$2,400,000 and the Investment Bank has withdrawn its claim against the Company in the Court thereafter.

(ii) On 14 May 2001, a body corporate issued a writ of summons and the accompanying statement of claim in the Court against the Company for the recovery of certain agency commission amount. The total claim was approximately HK$8,500,000. The directors considered that the claim was without merit and the Company defended the action by filing defence on 26 June 2001 and a list of documents of the defendant on 5 September 2001. Since then, no further action had been taken by both the body corporate and the Company. As a prudent measure, a provision of HK$9,000,000 in respect of this claim was made (including principal of HK$8,500,000 and expected fees/interests of HK$500,000) for the year ended 31 December 2001.

In the directors' opinion, after taking appropriate legal advice, the Company has viable grounds to compel for an amicable settlement and discharge in favour of the Company. Up to the date of this report, no action has been taken by both the body corporate and the Company.

(b) Other

Other provision represents the provision of minimum use fee for the unissued convertible notes according to a convertible secured note purchase agreement with an independent third party on 16 March 2001.

Up to the date of this report, the Company has received no demand for the minimum use fee from the counterparty. After taking appropriate legal advice, the directors considered that a full write back is possible when the statutory limitation period is expired.

26. SHARE CAPITAL

	2007 **HK$'000**	2006 HK$'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.02 each	**2,000,000**	2,000,000
Issued and fully paid:		
953,906,963 (2006: 953,906,963) ordinary shares of HK$0.02 each	**19,078**	19,078

(a) There was no movement in the share capital of the Company for each of the years ended 31 December 2007 and 2006.

(b) Share options

A share option scheme (the "Scheme") was approved by shareholders of the Company on 29 June 2004. The Scheme is yet to take effect and is subject to the Listing Committee of the Stock Exchange granting the approval of listing of and permission to deal in the shares of the Company which may be issued pursuant to the exercise of the options under the Scheme up to 10% of the total issued share capital of the Company as at the date of adoption of the Scheme. The following is a summary of the major terms of the Scheme:

(i) The purpose of the Scheme is to provide the eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage the eligible participants to work towards enhancing the value of the Company and its shares of the Company for the benefit of the Company and the shareholders of the Company as a whole.

(ii) Eligible participants of the Scheme include employees, directors (including executive, non-executive and independent non-executive directors), shareholders, advisors and consultants of the Group.

(iii) The Scheme, unless otherwise cancelled or amended, shall be valid and effective for a period of ten years commencing on the adoption date of the Scheme.

(iv) The overall limit on the number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the shares of the Company in issue from time to time.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

26. SHARE CAPITAL *(Continued)*

(b) Share options *(Continued)*

(v) The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to any one eligible participant in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

(vi) The subscription price shall be determined by the Board of the Company in its absolute discretion and shall be no less than the highest of:

(a) the closing price of the share of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant;

(b) the average closing price of the share of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 trading days immediately preceding the date of grant; or

(c) the nominal value of the share of the Company on the date of grant.

(vii) The options must be taken up within 30 days from the date on which the letter containing the offer to the eligible participant to take up an option is delivered to the eligible participant upon payment of HK$1 and are exercisable over a period to be determined and notified by the Board to each grantee.

(c) Capital management

Capital comprises all components of equity as stated in the balance sheet. The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders.

The Group manages its capital by regularly monitoring its current and expected liquidity requirements and its compliance with leading covenants to ensure that sufficient working capital and adequate committed lines of funding are maintained rather than using debt/equity ratio analyses.

The equity has share capital of HK$19,078,000 (2006: HK$19,078,000) which is used for the Group's operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

27. RESERVES

Company

	Note	Share premium HK$'000 (note a)	Capital reserve HK$'000 (note 24)	General reserve HK$'000	Special capital reserve HK$'000 (note b)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006		34,123	4,337	200	44,556	(134,524)	(51,308)
Loss for the year	13	–	–	–	–	(5,994)	(5,994)
At 31 December 2006 and 1 January 2007		34,123	4,337	200	44,556	(140,518)	(57,302)
Gain on adjustment of amortised cost of convertible note		–	1,036	–	–	–	1,036
Loss for the year	13	–	–	–	–	(1,448)	(1,448)
At 31 December 2007		34,123	5,373	200	44,556	(141,966)	(57,714)

(a) The application of share premium account is governed by section 48B of the Companies Ordinance.

(b) As part of the capital reorganisation ("the Reorganisation") (details of which are set out in the Company's circular dated 1 August 2002), an Order on Petition dated 15 October 2002 (the "Order") was issued by the Court in connection with the reduction of the capital and the utilisation of the share premium account of the Company pursuant to which the Company undertook to the Court that any future recoveries by the Company in respect of certain provision for diminution in value beyond their written down value in the Company's audited financial statements for the period ended 31 December 2001 up to an overall aggregate amount of approximately HK$990,320,000 will be credited to a special capital reserve. So long as there remains outstanding any debt of or claim against the Company which, if the date on which the reduction of capital and cancellation of the share premium account became effective (the "Effective Date") were the date of the commencement of the winding up of the Company would have been admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an undistributable reserve of the Company for the purposes of section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment of modification thereof provided that:

(i) The Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

27. RESERVES *(Continued)*

(b) *(Continued)*

(ii) The overall aggregate limit of special capital reserve of approximately HK$990,320,000 may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount of the share premium account of the Company as the result of the issue of shares for new consideration or the capitalisation of distributable profits;

(iii) The overall aggregate limit of special capital reserve of approximately HK$990,320,000 may be reduced by the amount of any increase, after the Effective Date, of any of the assets identified in the court order by the amount of the total provision made in relation to each such asset as at 31 December 2001 less such amount (if any) as is credited to the said special capital reserve as a result of such realisation; and

(iv) When the credit amount of the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (ii) and/or (iii) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

(c) During the year, no provisions for diminution in value of investment in subsidiaries and inter-company balances as prescribed in the Order were recovered. Up to 31 December 2007 the Company has credited approximately HK$44,556,000 (2006: HK$44,556,000) to the special capital reserve, which reduced the overall aggregate limit of special capital reserve with the same amount. Such amount was further reduced by the issue of share capital of HK$47,000,000 in 2004. As a result, the maximum amount to be credited to the special capital reserve was reduced to approximately HK$898,764,000 (2006: HK$898,764,000).

(d) Statutory common reserve

According to the PRC Company Law, the PRC subsidiary of the Group are required to transfer 5% of its profit after taxation, as determined under PRC Accounting Regulations, to statutory common reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue in not less than 25% of the registered capital.

(e) The Company has no reserves available for distribution to shareholders as at 31 December 2007 (2006: HK$Nil).

28. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2007, the Group and the Company have unrecognised tax losses of HK$116,662,000 (2006: HK$108,125,000) and HK$104,951,000 (2006: HK$96,396,000) respectively, which have no expiry date, to carry forward.

No deferred income tax has been made in the financial statements as there are no significant temporary differences for the current and prior years.

29. OPERATING LEASE COMMITMENT

As lessee

As at the balance sheet date, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**717**	246	**–**	195
In the second to fifth year inclusive	**832**	–	**–**	–
	1,549	246	**–**	195

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

30. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following related party transactions:

Name of related company	Nature of transaction	Amount paid to/ (received from) the related parties 2007 HK$'000	2006 HK$'000
醫藥公司	Purchases *(note (i))*	–	3,204
北方大藥房	Sales *(note (i))*	–	(69)
天津太平(集團)有限公司 ("天津太平") *(note (ii))*	Purchase *(note (i))*	**5,543**	–

Notes:

(i) These transactions were carried out at market prices.

(ii) Mr. 宋建國 is the common legal representative.

(iii) The above transactions did not fall under the definition "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

(b) According to the joint venture agreement ("JV Agreement") dated 28 April 2005 (as supplemented) entered into among the Group and 天津市醫藥公司 (Tianjin Shi Yi Yao Company) ("醫藥公司"), 天津國津投資有限公司 (Tianjin Guo Jin Investment Company Limited) ("國津投資") and 天津市河西區北方大藥房 (Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang) ("北方大藥房"), profit generated by Tianjin Jinshun will be shared among the parties based on their respective percentage interest in Tianjin Jinshun. As at the balance sheet date, the Group, 醫藥公司, 國津投資 and 北方大藥房 owned 60%, 5%, 17.5% and 17.5% of the interest of Tianjin Jinshun respectively.

It is also agreed between the parties that profit after income tax of Tianjin Jinshun for each of the first three years starting from the date of establishment of Tianjin Jinshun ("Guarantee Period") will not be less than RMB7,000,000 and the Group will be entitled to RMB4,200,000 in each year (or on pro rata basis, if less than one year).

Should the profit after income tax of Tianjin Jinshun attributable to the Group fall short of RMB4,200,000 in any of the year during the Guarantee Period, 國津投資 and 北方大藥房 undertake to pay the Group jointly such shortfall in cash before 30 April in the following year.

It is provided in the JV Agreement that profit attributable to 醫藥公司's 5% equity interest in Tianjin Jinshun for each of the years ended 31 December 2006 and 2005 should not be less than RMB700,000. In case of any shortfall, 醫藥公司 will be compensated by the Group as to 63.2% of such shortfall and jointly by 國津投資 and 北方大藥房 in equal share as to the remaining 36.8% of such shortfall.

The Group recognised a guarantee income receivable from 國津投資 and 北方大藥房 in the amount of HK$3,028,000 (2006: HK$2,775,000) and a payment of guarantee income to 醫藥公司 in the amount of HK$Nil (2006: HK$366,000) pursuant to the JV Agreement.

30. RELATED PARTY TRANSACTIONS *(Continued)*

(c) On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, former director of the Company and former director of such wholly-owned subsidiary, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK$11,250. On 31 March 2006, the tenancy agreement was further extended to 30 September 2006 with monthly rental remain unchanged. No more tenancy agreement was renewed after 30 September 2006 even the property was still used and occupied by the wholly-owned subsidiary up to 15 April 2007. During the year, the wholly-owned subsidiary paid rental expenses to Dr. Wan Kwong Kee of HK$39,000 (2006: HK$135,000). This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

(d) During the year, the office premises occupied by Tianjin Jinshun were provided by the key management personnel of Tianjin Jinshun, Mr. Zhao Geng and Mr. Zhang Wei's spouse free of charge. The open market rental value of the office premises of Tianjin Jinshun for the year ended 31 December 2007 estimated by Mr. Zhao Geng and Mr. Zhang Wei was HK$79,000 (2006: HK$74,000).

(e) A property of a staff, Ms. 趙偉, has been pledged to a bank for bills payable granted to the Group as at 31 December 2007. Ms. 趙偉 is the younger sister of Mr. Zhao Gang who is the director of Tianjin Jinshun (note 22(b)).

(f) On 29 March 2007, a wholly-owned subsidiary of the Company, has entered into a sale and purchase agreement with a former staff of the Group, Ms. Wong Shiu King, for the disposal of property, plant and equipment with an aggregate net book values of HK$95,000 at a consideration of HK$200,000 and the gain on disposal of property, plant and equipment of HK$105,000 was recognised in the income statement in the current year.

(g) Remuneration for key management personnel, including amounts paid to the Company's directors and certain of highest paid employees as disclosed in note 10, is as follows:

Group

	2007 **HK$'000**	2006 HK$'000
Salaries, wages and other benefits in kind	**1,333**	2,133
Contribution to defined contribution retirement plan	**53**	61
	1,386	2,194

NOTES TO THE FINANCIAL STATEMENTS
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30. RELATED PARTY TRANSACTIONS *(Continued)*

(h) Amount due from/(to) related parties:

		Group	
	Relationship	**2007 HK$'000**	2006 HK$'000
醫藥公司	Minority shareholder of a subsidiary *(note (a) and (b))*	**–**	(615)
北方大藥房	Minority shareholder of a subsidiary *(note (a) and (c))*	**266**	81
天津太平	Related company *(note (a) and (d))*	**(164)**	–

Note:

(a) The amounts are unsecured, interest free and repayable on demand.

(b) The amount is included in "Trade and other payables" in the consolidated balance sheet (note 22).

(c) The amount is included in "Trade and other receivables" in the consolidated balance sheet (note 19).

(d) The amounts of HK$70,000 (2006: HK$Nil) and HK$234,000 (2006: HK$Nil) are included in "Trade and other receivables" (note 19) and "Trade and other payables" (note 22) in the consolidated balance sheet respectively.

31. CONTINGENT LIABILITIES

(a) The Group disposed of three subsidiaries to an independent third party (the "Acquirer") in 2000. The Company has provided corporate guarantees (the "Corporate Guarantees") to the bankers of these former subsidiaries to secure certain bank facilities granted to them. Subject to the release of the Corporate Guarantees by the relevant banks, the Company is obliged to continue to provide the Corporate Guarantees after the completion of such disposal. In relation to the settlement agreement dated 31 December 2003 entered by the Acquirer and BOC ("Settlement Agreement"), the Company is liable to a reinstatement of all liabilities and obligations under the Corporate Guarantees and the outstanding indebtedness owed by the Company to BOC when the settlement under the Settlement Agreement is revoked. Subsequently, the Group and BOC agreed pursuant to the BOC Agreements, in the event of the revocation of the Settlement Agreement, the Company shall pay to BOC an additional sum of approximately HK$223,000.

(b) Pursuant to the BOC Agreements, the Company is liable to a reinstatement of all liabilities and obligations under the guarantees and outstanding liabilities released and discharged when the BOC Agreements are revoked. The total liabilities released under the BOC Agreements amounted to approximately HK$215,112,000 and the settlement sum already paid for the settlement is approximately HK$35,412,000.

During the year ended 31 December 2006, the Company has successfully come to agreement with relevant bankers and all contingent liabilities regarding the above had been released.

32. PENSION SCHEME

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong since 1 December 2000. Monthly contributions are made to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to HK$12,000 per annum. The contributions to the MPF Scheme vest immediately and fully as employees benefits once the contributions become payable by the Group. There is no forfeited contribution when employees leave the MPF Scheme.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations. (i.e. 20% of the basic salary).

The only obligation of the Group with respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

The Group's (employer's) contributions made during the year ended 31 December 2007 amounted to approximately HK$79,000 (2006: HK$110,000).

33. PLEDGE OF ASSETS

As at the balance sheet date, the following assets of the Group and the Company are pledged to the banks and other financial institution for the banking facilities and loans granted to the Group and the Company:

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (note 19(d))	**6,029**	–	**–**	–
Financial assets at fair value through profit or loss (note 20)	**–**	255	**–**	255
Bank deposits (note 21)	**681**	50	**50**	50
	6,710	305	**50**	305

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

34. PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2007, the directors consider the parent and ultimate controlling party of the Group to be Hong Jin, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

35. EVENTS AFTER THE BALANCE SHEET DATE

Other than those disclosed elsewhere in the financial statements, the Group did not have other significant events after the balance sheet date need to be disclosed.

36. COMPARATIVE FIGURES

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

In addition, certain comparative figures have been restated or reclassified to conform with the current year's presentation.