SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1177)

Annual Report 2007

Contents

Corporate Profile

Sino Biopharmaceutical Limited (the "Company"), together with its subsidiaries, an associate and jointly-controlled entity (the "Group"), is an integrated pharmaceutical enterprise. Applying advanced biotechnology and modernized Chinese medicinal technology, the Group researches, develops, manufactures and markets a vast array of health enhancing biopharmaceuticals, modernized Chinese medicines and chemical medicines. The Group has also, through its wholly-owned subsidiary Chia Tai Refined Chemical Industry Limited ("CTRC"), entered into an agreement to establish a joint venture engaging in the refining of coal into methanol to low carbon olefin (MTO) products in Yulin City, Shaanxi Province, the People's Republic of China (the "PRC").

The Group's pharmaceutical products can be grouped under two major therapeutic categories: cardio-cerebral diseases and hepatitis. It also actively develops medicines for treating tumors, analgesia, respiratory system diseases, diabetes and digestive system diseases to meet the increasing demands of the market, medical practitioners and patients.

Principal products:

Cardio-cerebral medicines:	Kaishi (Alprostadil) injections, Spring (Purarin) injections
Hepatitis medicines:	Ganlixin (Diammonium Glycyrrhizinate) injections and capsules, Mingzheng (Adefovir Dipivoxil) capsules, Tianqingfuxin (Marine) injections and capsules
Oncology medicines:	Tianqingyitai (Zolebronate Acid) injections
Analgesic medicines:	Kaifen (Flurbiprofen Axetil) injections

New key products with great potential:

Hepatitis medicines:	Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules
Cardio-cerebral medicines:	Tianqingganan (Glycerin and Fructose) injections, Tianqingning (Hydroxyethylstarch 130) injections
Oncology medicines:	Renyi (Pamidronate Disodium) injections
Respiratory medicines:	Tianqingzhengshu (Loratadine) tablets
Diabetic medicines:	Taibai (Metformin Hydrochloride) sustained release tablets, Beijia (Nateglinide) tablets

"Award for Outstanding Chinese Patented Invention" jointly granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC

Forbes Award

Postdoctoral Scientific Research Workshop

Corporate Profile

The medicines which have received Good Manufacturing Practice ("GMP") certifications issued by the State Food and Drug Administration ("SFDA") of the PRC are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP Certification for Health Food in capsules from the Department of Health of Jiangsu Province.

The Group's principal subsidiary-Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT") and the jointly-controlled entity, Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide") have both been designated "High and New Technology Enterprises" and "Foreign Invested Advanced Technology Enterprises". Beijing Tide also received the "Key New and High Technology Enterprise" certificate from the Torch High Technology Industry Development Center of the Ministry of Science and Technology of the PRC in June, 2006. Beijing Chia Tai Green Continent Pharmaceutical Co. Ltd. ("CTGC"), another subsidiary of the Group, was also hailed as a "High and New Technology Enterprise".

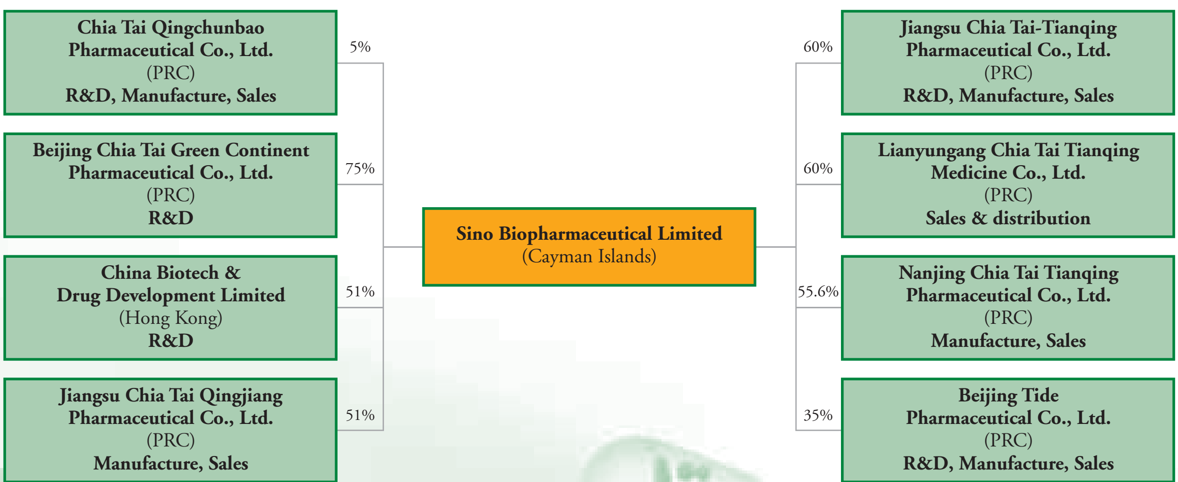
The research center of JCTT was recognized as the "Postdoctoral Scientific Research Workshop" by the PRC's Ministry of Personnel. It is the country's unique "New Hepatitis Medicine Research Center".

The Group's website: http://www.sinobiopharm.com

Stock Code: 1177

GROUP STRUCTURE

Fig.1.1



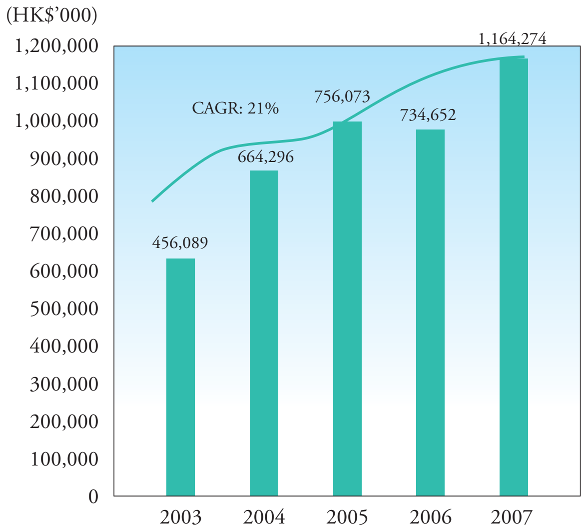
Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
CONTINUING OPERATIONS					
TURNOVER	**1,164,274**	734,652	756,073	664,296	456,089
Cost of sales	**(205,764)**	(138,788)	(139,418)	(133,163)	(105,872)
Gross profit	**958,510**	595,864	616,655	531,133	350,217
Other income and gains	**98,367**	91,486	28,599	7,063	8,154
Selling and distribution costs	**(503,751)**	(327,720)	(310,609)	(253,390)	(176,167)
Administrative expenses	**(154,708)**	(121,802)	(110,866)	(101,885)	(79,396)
Other expenses	**(53,743)**	(31,254)	(42,224)	(33,382)	(18,593)
Finance costs	**(2,575)**	(2,205)	(2,729)	(1,050)	(843)
Share of profit of an associate	**216**	704	–	–	–
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**342,316**	205,073	178,826	148,489	83,372
Fair value adjustment	**–**	–	(66,315)	–	–
PROFIT BEFORE TAX	**342,316**	205,073	112,511	148,489	83,372
Tax	**(33,972)**	(22,106)	(18,311)	(15,407)	(11,625)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**308,344**	182,967	94,200	133,082	71,747
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	152,213	152,129	78,209
Gain on disposal of subsidiaries	**–**	–	1,406,191	–	–
Total profit for the year from a discontinued operation	**–**	–	1,558,404	152,129	78,209
PROFIT FOR THE YEAR	**308,344**	182,967	1,652,604	285,211	149,956
Attributable to:					
Equity holders of the parent	**224,353**	141,172	1,532,929	168,485	81,636
Minority interests	**83,991**	41,795	119,675	116,726	68,320
	308,344	182,967	1,652,604	285,211	149,956
TOTAL ASSETS	**2,595,664**	2,215,110	2,140,222	950,535	787,244
TOTAL LIABILITIES (exclude convertible bonds)	**(375,361)**	(183,611)	(164,978)	(239,845)	(215,531)
CONVERTIBLE BONDS	**–**	–	–	(42,900)	(78,000)
NET ASSETS	**2,220,303**	2,031,499	1,975,244	667,790	493,713
MINORITY INTERESTS	**(201,055)**	(122,937)	(121,997)	(211,716)	(156,348)

SALES GROWTH OF CONTINUING OPERATIONS

Fig.1.2



GROWTH OF PROFIT FROM CONTINUING OPERATIONS

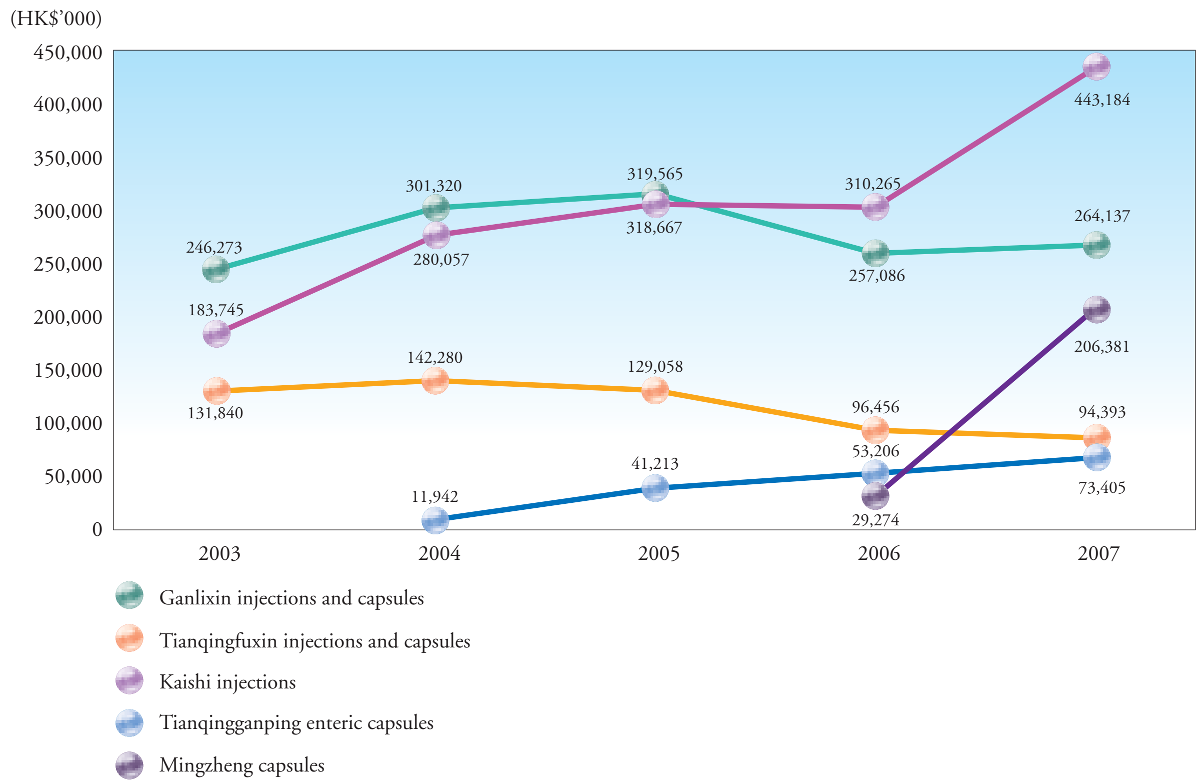
Fig.1.3

* Profit before fair value adjustment for derivative financial instrument

Financial Summary

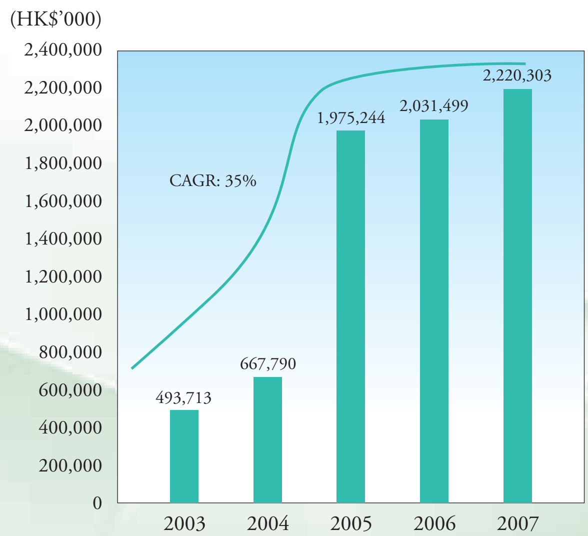
SALES GROWTH OF BLOCKBUSTER PRODUCTS

Fig.1.4



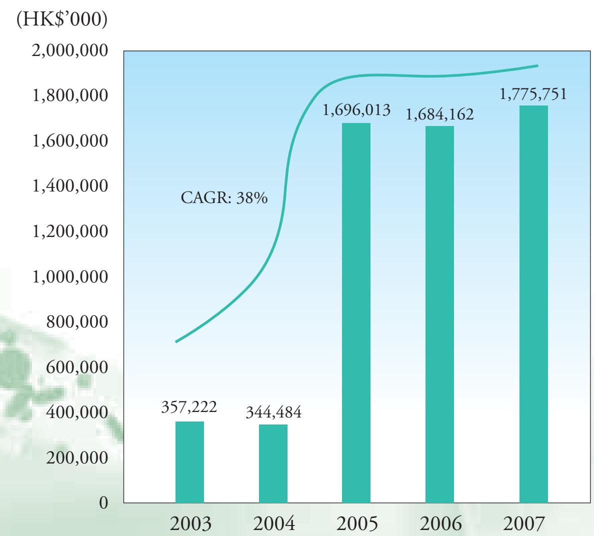
NET ASSET VALUE

Fig.1.5



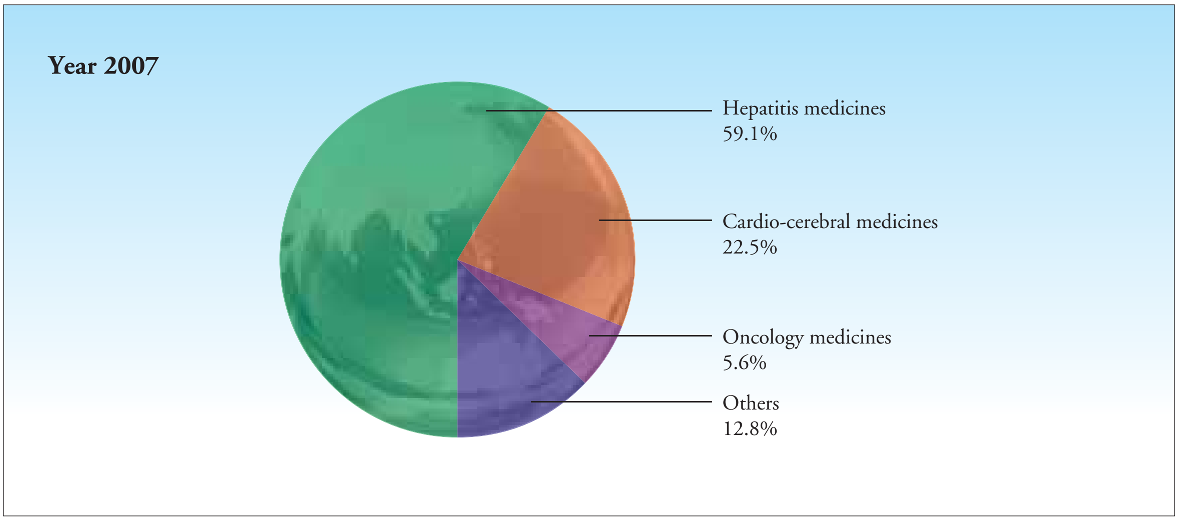
CASH AND BANK BALANCES

Fig.1.6



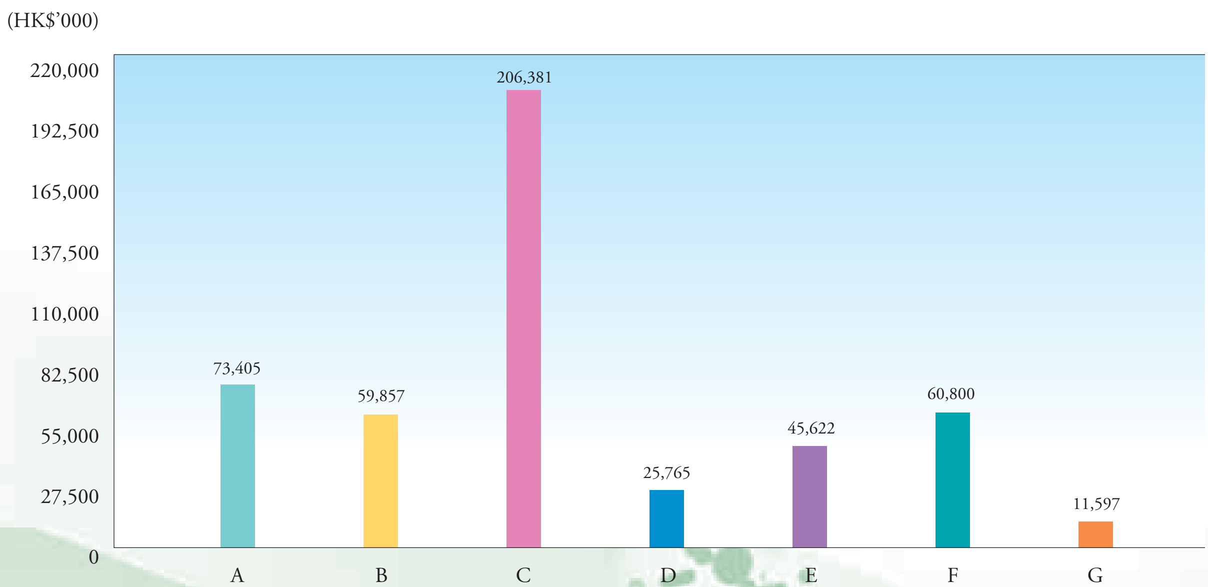
TURNOVER BY THERAPEUTIC CATEGORIES

Fig.1.7



TURNOVER BY NEW PRODUCTS WITH GREAT POTENTIAL (2007)

Fig.1.8



A	Tianqingganping enteric capsules (launched in May, 2004)
B	Tianqingganmei injections (launched in November, 2005)
C	Mingzheng capsules (launched in July, 2006)
D	Tianqingganan injections (launched in April, 2004)
E	Tianqingyitai injections (launched in January, 2005)
F	Kaifen injections (launched in January, 2005)
G	Taibai sustained release tablets (launched in May, 2004)

Awards

Corporate Awards

- The Company was awarded "Chinese Outstanding Enterprise Achievement Prize" by the Capital Magazine in May, 2006
- The Company was awarded "Best under a 1 US Billion within the Asia Pacific region in 2005" by Forbes Asia
- The Company was awarded "Hong Kong Outstanding Enterprises 2005" by Economic Digest
- The Company was awarded "Red Herring Small Cap 100" by Red Herring Magazine
- JCTT was commended "People's Safe Medicine" enterprise in "Safe Medicine for Everyone", an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People's Health magazine
- JCCT was designated "Torch Programme Excellent High and New Technology Enterprise" from the PRC's Ministry of Science and Technology
- JCTT was designated "Postdoctoral Scientific Research Workshop" from the Post-doctoral Administration Committee of the PRC's Ministry of Personnel
- NJCTT was awarded "Model Enterprise for establishment of quality and trustful medicines" by the PRC Pharmaceutical Quality Control Association
- JCTT received "Advanced Technology Foreign Investment Enterprise certificate" from Outward Trade & Economic Cooperation Committee of Jiangsu Provincial
- JCTT was designated "High and New Technology Enterprise certificate", "Technology Intensive and Knowledge Intensive Enterprise" and "Jiangsu Provincial New Hepatitis Pharmaceutical Engineering Research and Technology Centre" from Science and Technology Committee of Jiangsu Provincial
- Beijing Tide and CTGC was designated "High and New Technology Enterprise" by Beijing Municipal Science and Technology Committee
- Beijing Tide received "Advanced Technology Foreign Investment Enterprise Certificate" from Beijing Municipal Bureau of Commerce
- Beijing Tide received "Key High and New Technology Enterprises Certificate" from Torch High Technology Industry Development Centre of the PRC's Ministry of Science and Technology

Product Awards

- Tianqingganmei and its production method received the "The Tenth Chinese Patent Gold medal" jointly granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC
- Tianqingganmei injections won the gold medal in "The Third Chinese International Patented and Famous Brands Exhibition" organized by State Intellectual Property Office of the PRC
- Ganlixin was commended "People's Safe Medicine Branding" in "Safe Medicine for Everyone", an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People's Health magazine
- Ganlixin product line received "Jiangsu Famous Brand Certificate" from Jiangsu Promotion Commission for Famous Brand Strategy
- Tianqingganping was awarded "National Torch Programme Project Certificate" from the PRC's Ministry of Science and Technology
- Kaishi Injections received "National New Key Product Certificate" jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China
- Kaishi Injections received "Beijing Science and Technology Second Honor Award" from the Beijing Municipal People's Government
- Getai, Renyi, Tianqingning, Yitong were granted "High and New Technology Product Confirmation Certificate" by the Bureau of Technology of the Jiangsu Province
- Kaifen injections received "National New Key Product Certificate" jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 31 December, 2007 for the Group.

INDUSTRY OVERVIEW

In 2007, the China pharmaceutical industry made steady advancement, withstanding regulatory guidance, and returned on the path of growth. The industry at large reported notable economic gain. This achievement was owned to major government effort in building a medical assurance system in the country. At the same time, the authority also stepped up monitory on medicines with the support of the newly amended "Guidance for Administration of Medicine Registration", which increased the transparency of the medicine monitory and approval process and verification of ingredients used in producing different medicines. Clear definition was introduced to separate high technological content medicines from those without innovative input. The recently amended "GMP Medicines Accreditation Standards" also raised GMP medicine accreditation standards and commanded strengthening of related management software. The new standards have put pharmaceutical production under more stringent scrutiny.

JCTT's factory

NJCTT's factory

BUSINESS REVIEW

The pharmaceutical industry continued to consolidate and standardize in 2007. Despite facing increasingly stringent regulations and rising costs, the Group upheld the strategy of striving for steady development. It endeavored to integrate the strength of all companies within the Group to optimize resources allocation and pool together its core competitiveness. It cemented its foundation for growth through JCTT's equity interest in Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd., Yancheng Suhai Pharmaceutical Co., Ltd. and Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd.. Upon completion of the restructuring, JCTT will directly own a total of seven subsidiaries and a corporate structure capable of bringing to its business maximum cost effectiveness. Furthermore, the Group maintained effort in building and strengthening its sales network. It also mounted more aggressive academic promotion and innovative campaigns for main products and products with strong potential and boosted its corporate brand as well as product brands for the purpose of sustaining growth. A number of the Group's main pharmaceutical products maintained dominance in their respective markets. While placing emphasis on enhancing management and sales, the Group also put major effort on research and development ("R&D") and intellectual property protection and encouraged innovation among its different operations. Through its persistent efforts over the years, patented products have brought huge returns to the Group.

In 2006, the Company, through its wholly-owned subsidiary Chia Tai Refined Chemical Industry Limited, signed a joint venture agreement with three companies to establish Shaanxi Xinxing Energy Chemical Industry Limited ("SXEC"), which it has 43% interest. SXEC is mainly in the business of refining coal into methanol in Shaanxi. Taking into account the current high price of petroleum, extracting low carbon olefin from cheaper coal as a new source of material for producing methanol has strategic value. The project is in early preparation to make sure it will abide by environmental protection and water resources standards required of such projects.

The Group recorded turnover of approximately HK$1,164.27 million during the year under review, an increase of approximately 58.5% against the same period last year. Profit attributable to the Group was approximately HK$224.35 million, approximately 58.9% higher than in the same period last year. Basic earnings per share were approximately HK9.91 cents, representing an increase of approximately 58.8% when compared with the corresponding period last year. Cash and bank balances totaled approximately HK$1,775.75 million.

The Group continued to focus on developing specialized medicines where its strengths lie so as to build up its brand as a specialty medicine enterprise. Leveraging on its existing medicine series for treating hepatitis and cardio-cerebral diseases, the Group also actively developed oncology medicines, analgesic medicines, diabetic drugs and respiratory medicines, etc.

Beijing Tide's factory

Jiangsu Qingjiang's factory

OUTLOOK AND PROSPECT

The Chinese economy has a positive outlook in 2008. With the government investing in public health and medical protection provisions for the people and braced by continuous growth of the population and economy, the pharmaceutical market in the country has huge development potential and players can look forward to maintaining fast growth. However, as there are a number of factors, it will create considerable cost pressure and pose challenges to the industry.

On the strong profit from its pharmaceutical operations and with abundant capital, the Group will continue to expand in the pharmaceutical market, striving to strengthen the management of production and ensure product safety, thereby boost its corporate brand and market share. By pursuing continuously technological advancement, development of new products and innovation, the Group pledges to keep introducing quality products to meet market needs. It will also boost its core competitiveness, improve its corporate governance and optimize resources allocation so as to reduce operating costs and achieve cost effectiveness. Over the years, building on its capabilities and position in the pharmaceutical industry in China and with strong capital base, the Group has kept attracting cooperation proposals from many large domestic and foreign enterprises. The Group will also seek to speed up growth through mergers and acquisitions and restructuring and consolidate its business operations, with the aim of growing the strength and scale of its business.

On the coal to olefin business front, with global oil price standing persistently high, extracting low carbon olefin from cheaper coal as the source of material for producing methanol will bring stable and promising revenue to the Group. The new business will become a new profit growth driver of the Group in the long run.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders for their trust, support and understanding, as well as to all staff for their dedication and diligence.

RESULTS

The Group recorded turnover of approximately HK$1,164.27 million during the year under review, an increase of approximately 58.5% against the same period last year. Profit attributable to the Group was approximately HK$224.35 million, approximately 58.9% higher than in the same period last year. Basic earnings per share were approximately HK9.91 cents, representing an increase of approximately 58.8% when compared with the corresponding period last year. Cash and bank balances totaled approximately HK$1,775.75 million.

The Group's principal profit contributors are JCTT, Beijing Tide, NJCTT and Chia Tai Qingchunbao Pharmaceutical Co., Ltd..

Cardio-cerebral medicines

Mainly manufactured by Beijing Tide and NJCTT, cardio-cerebral medicines accounted for approximately 22.5% of the Group's turnover. The segment's major product Kaishi injections produced by Beijing Tide works on the Drug Delivery System (DDS) theory to improve cardio-cerebral micro-circulation blockage. It is the first micro-sphere target sustained release medicine in the PRC. The proprietary pharmaceutical technology makes the product more effective relative to similar products, thus allows it to occupy majority market share. The product has received many national prizes and Beijing Tide received the "High and New Technology Enterprise in Beijing" title again in 2007. For the year ended 31 December, 2007, sales of the product amounted to approximately HK$443.18 million, making it the best selling product of the Group.

Chinese Premier Wen Jiabao met with Professor Mizushima Yataka

The sales of the Spring PVC-free soft bags for intravenous injections and the Spring injections manufactured by NJCTT continued to be stable since launch. NJCTT was named "Model Enterprise for establishment of quality and trustful medicines" by the PRC Pharmaceutical Quality Control Association in 2007. For the year ended 31 December, 2007, sales of the two products increased to approximately HK$37.72 million, which sustained a growth when compared with 2006.

The sales of Tianqingganan injections manufactured and sold by NJCTT grew satisfactorily since it was launched in 2004. For the year ended 31 December, 2007, the product recorded sales of approximately HK$25.76 million.

NJCTT's Tianqingning injections, which was launched in 2006, is a plasma-volume expander for patients with blood volume deficiencies. As this product can be used as plasma for all blood types, it has huge market potential. For the year ended 31 December, 2007, the product recorded sales of approximately HK$14.73 million, an increase of approximately 4,238.9% when compared with 2006.

Kaishi injections

Spring PVC-free soft bags for intravenous injections

Spring injections

Tianqinganan injections

Tianqingning injections

Yishenjuanbi pills

Management Discussion and Analysis

Hepatitis medicines

Hepatitis medicines is one of JCTT's main product series. It recorded sales of approximately HK$688.44 million for the year ended 31 December, 2007 and accounted for approximately 59.1% of the Group's turnover.

JCTT mainly produces two categories of hepatitis medicines that can protect the liver while lowering enzyme levels and combating hepatitis virus. Ganlixin injections and capsules made with ingredients extracted from Licorice are the Group's number 1 hepatitis medicine brand and the second largest sales contributor. After the protection period of the product expired, many replicas have emerged in the market, resulting in intensified competition. Despite this situation, Tianqingganping enteric capsules with better therapeutic effect than Ganlixin capsules and its intellectual property right being protected, continued to record increase in sales, representing a growth of approximately 31.0% when compared with last year. In 2005, JCTT launched the patented medicine Tianqingganmei injections, which was made with Isoglycyrrhizinate separated from Licorice. The product has shown bright prospects and for the year under review, its recorded growth in sales of approximately 216.5% against the previous year. The Group believes that medicines made with ingredients extracted from Licorice will help to maintain JCTT's leadership in the market for medicines protecting the liver and lowering enzyme levels.

The Group launched a new patented hepatitis medicine called Mingzheng capsules in 2006. As a first-tier synthetic drug for combating hepatitis virus in the international market, the product has been well received by the market since launch with sales growing rapidly. For the year ended 31 December, 2007, its sales amounted to approximately HK$206.38 million, an approximately 569.6% growth when compared with 2006. The Group believes Mingzheng capsules have become another blockbuster product for combating hepatitis virus among its product offerings.

Tianqingfuxin injections and capsules are the modernized Chinese medicines for fighting hepatitis virus. Intense market competition had dragged down their prices as well as sales when compared with last year.

Oncology medicines

The Group's oncology medicines including Tianqingyitai injections and Renyi injections are mainly developed and manufactured by JCTT and NJCTT. For the year ended 31 December, 2007, sales of oncology medicines amounted to approximately HK$56.90 million, an increase of approximately 36.1% as compared with last year.

Analgesic medicines


Kaifen injections

Kaifen injections is an analgesic medicine developed and manufactured by Beijing Tide and launched in 2005. It is a Flurbiprofen Axetie microsphere target sustained release analgesic injection produced based on the DDS theory and enabled by advanced target technology. The product is famous for strong pain relieving effect with minimal side effects and has been well received by medical practitioners and patients since launch. Sales of the product for the year ended 31 December, 2007 amounted to approximately HK$60.80 million, approximately 279.5% higher than that as compared with last year, showing strong growth potential.


Ganlixin capsules | Ganlixin injections | Tianqingfuxin capsules | Tianqingfuxin injections | Tianqingganping enteric capsules | Tianqingganmei injections | Mingzheng capsules

Diabetic medicines

The Group's diabetic medicines are manufactured by JCTT. The main product in this category is Taibai sustained release tablets for lowering blood sugar level, which was launched in 2004. Taking into account that there are more than 30 million diabetics in the PRC and the first-tier diabetic medicine's sustained release feature which can keep patients' blood sugar level steady, the product is expected to record remarkable sales in future.

RESEARCH AND DEVELOPMENT

The Group continues to focus its R&D efforts on cardio-cerebral, hepatitis, oncology, analgesia and respiratory system medicines. During the year under review, a total of 70 cases had completed clinical research, or were under clinical trial or applying for production approval. Currently, 23 cardio-cerebral medicines, 9 hepatitis medicines, 3 oncology medicines, 1 analgesia medicine, 4 respiratory system medicines and 5 diabetic medicines are being developed.

The Group develops innovative and generic drugs by itself as well as in coordination with other parties. To enhance its R&D capabilities and accelerate product development, the Group conducts joint development projects with local and international R&D institutes. Viewing R&D as fundamental to its sustainable development and with the country encouraging development of innovative enterprises, the Group has kept investing R&D over the years. It invested approximately HK$49.99 million in R&D in 2007, representing a comparable of approximately 4.3% of sales income for the year.

The Group also places great importance on intellectual right protection. It diligently resorts to appropriate legal means to protect its rights in the area, such as applying for invention patents and utility model patents to strengthen its competitive edges. In 2007, the Group filed 22 patents and announced 23 invention patent applications, and obtained 98 invention patents and 2 apparent design patents. The Group owns a total of 132 invention patents, 3 utility model patents and 15 apparel design patents. In all, it has filed 27 patent applications and announced 169 invention patent applications. The Group's main patented products generating high profitability and promising market potentials are Mingzheng capsules and Tianqingganmei injections.

INVESTOR RELATIONS

The Group believes practicing good corporate governance will help to increase transparency of its operation. During the year under review, the Group had arranged various press conferences and investors presentations to keep analysts and fund managers up to date with the latest development of the Group.

The Group has also relentlessly expanded its local and overseas investors' network by actively participating in different investor forums during the year under review, including the DBS Vickers' "Asia Corporate Conference Day" in the United States and Corporate Day in Hong Kong. The management also organized a plant visit in Beijing for CLSA in November to enhance the investors' understanding of the Group's operation. In addition, the management held more than 20 investors meetings or teleconferences with renowned international investment institutions in Hong Kong and the PRC, namely CLSA, JP Morgan, Cazenove, ABN Amro, Normura, etc. These events helped the investors to understand more about the Group's business operations, and promote the Group's core competencies and investment values to overseas investors, so as to strengthen the Group's shareholders base.

Tianqingyitai injections

Renyi injections

Taibai sustained release tablets

Beijia tablets

Tianqingzhengshu tablets

Management Discussion and Analysis

The Group also posts its annual and interim reports, quarterly, interim and annual results announcements, disclosure and circulars on the Company website and the website of Hong Kong Exchanges and Clearing Limited. Its aim is to maintain a high degree of transparency in relation to all disclosure of financial and other information.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year, the Group's primary source of funds was cash derived from operating activities and disposal of Sino Concept Technology Limited in 2005. As at 31 December, 2007, the Group's bank balance and cash in hand was approximately HK$1,775.75 million (2006: approximately HK$1,684.16 million).

CAPITAL STRUCTURE

As at 31 December, 2007, the Group had short term loans of approximately HK$36.98 million and long term loans of approximately HK$21.38 million (2006: Nil).

CHARGE ON ASSETS

As at 31 December, 2007, certain of the Group's buildings with a net book value of approximately HK$16,279,000 (2006: Nil) were pledged to secure bank borrowings granted to the Group.

CONTINGENT LIABILITIES

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

ASSETS AND GEARING RATIO

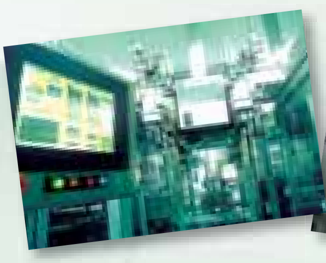
As at 31 December, 2007, the total assets of the Group amounted to approximately HK$2,595.66 million (2006: approximately HK$2,215.11 million) whereas the total liabilities amounted to approximately HK$375.36 million (2006: approximately HK$183.61 million). The gearing ratio (total liabilities over total assets) was approximately 14.5% (2006: approximately 8.3%).

EMPLOYEE AND REMUNERATION POLICIES

The Group remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme. Total staff costs (including Directors' remuneration) for the year were approximately HK$181,918,000 (2006: approximately HK$128,839,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate of HK dollars and US dollars is pegged under the fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.



NJCTT's production plant for PVC-free large volume injections

JCTT's capsules production line

Beijing Tide's small volume injections production line

Production workshop of Tianqingganmei injections

Sino Biopharmaceutical Limited (the "Company") is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability. For the year ended 31 December, 2007, the Company has applied the principles and complied with the code provisions prescribed in Appendix 14-Code on Corporate Governance Practices ("CG Code") as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which became effective on 1 January, 2005, except for the deviations from Code Provisions A.2.1. and E.1.2, details of which are stated below.

This report describes our corporate governance practices and explains the applications of the principles of the CG Code and deviations (if any).

A. BOARD OF DIRECTORS

BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget should be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management then reports back to the Board and obtains prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an executive board committee, audit committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees' structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, where appropriate and necessary, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committees meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time.

Corporate Governance Report

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. During the year ended 31 December, 2007, the Board has held four regular meetings for discussion of the Company's financial results. Notices of regular Board/committees meetings have been given at least 14 days before the date of meeting. For all other Board/committees meetings, reasonable notices have been given.

Minutes of the Board/committees meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or Secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director ("INED") who, and whose associates, have no material interest in the transaction, may be present at such board meeting.

BOARD COMPOSITION

The Board currently consists of nine directors, namely a Chairman and CEO, five Executive Directors and three INEDs.

Position		**Name**
Chairman and CEO	:	Mr. Tse Ping
Executive Directors	:	Mr. Tao Huiqi
	:	Mr. He Huiyu
	:	Ms. Cheng Cheung Ling
	:	Mr. Zhang Baowen
	:	Mr. Tse Hsin
INEDs	:	Mr. Lu Zhengfei ("Mr. Lu")
	:	Mr. Li Dakui ("Mr. Li")
	:	Ms. Li Jun ("Ms. Li")

The attributes, skills and expertise among the existing directors have a balance and mix of core competencies in areas such as pharmaceutical, accounting and finance, legal, business and management and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and active participating on committees, if invited;
- attending general meetings of the Company, where appropriate, and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. Tse Ping is both the Chairman and Chief Executive Officer ("CEO") of the Company. The Board considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve a better balance of power and authority, the chairman discusses important issues and decisions relating to the Group's business with other executive directors.

Mr. Tse Ping is the spouse of Ms. Cheng Cheung Ling, an Executive Director of the Company. He and Mr. Tse Hsin, an Executive Director, are first cousins. Save as disclosed above, there are no family relationships among members of the Board and between the Chairman and the CEO.

The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Being the CEO of the Company, Mr. Tse is also responsible for managing the Group's business and operations.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

APPOINTMENT, RE-ELECTION AND REMOVAL

The Company has a formal and proper procedure for consideration of the appointment of new directors to the board and for the resignation of any director. During the year, Mr. Wang Jinyu ("Mr. Wang") and Ms. Zhao Yanping ("Ms. Zhao") have resigned as Executive Directors on 1 February, 2007 and 20 July, 2007, respectively, due to Mr. Wang's personal reasons and Ms. Zhao's cessation of employment with the Company.

The Articles of Association of the Company provides that (1) one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (2) the directors to retire by rotation shall include any director who wishes to retire and offer himself for re-election. The retiring directors shall be those who have longest in office since their last re-election or appointment. All retiring directors are eligible for re-election.

Each of the Executive Directors are appointed for a term of three years. Each of the INEDs are appointed for a term of two years. All the Directors are subject to retirement by rotation and re-election at the Annual General Meeting ("AGM") of the Company, in accordance with the Articles of Association of the Company.

The names and biographical details of the directors who will offer themselves for election or re-election at the AGM are set out in a circular, which will be despatched together with the annual report accompanying the notice of meeting, to assist shareholders in making an informed decision on their elections.

Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

COMMITTEES

The Board has established an Executive Board Committee ("EBC") and a Remuneration Committee ("RC") in October, 2005 with written terms of reference to enable such committees to discharge their functions properly.

Executive Board Committee

The EBC consists of Mr. Tse Ping (Chairman) and Mr. Tse Hsin.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restriction.

Remuneration Committee

The RC consists of Mr. Tse Ping (Chairman), Mr. Lu (INED) and Ms. Li (INED).

The principal functions of the RC include:

- recommending to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determining the basis of the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing the compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his associates is involved in deciding his own remuneration.

The RC has held a meeting during the year to discuss and review the basis for remuneration policy and package for the Group. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The Company has adopted a share option scheme on 24 November, 2003. The share option scheme serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration.

The RC consults the Chairman and the CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

The terms of reference of the RC is available from the Secretary on request and is posted on the Company's website.

Audit Committee

The Audit Committee ("AC") was established on 19 September, 2000. The AC consists of three INEDs, Mr. Lu, Mr. Li and Ms. Li, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 27 June, 2005 in terms substantially the same as the provisions set out in the CG Code.

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which include:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors, any questions of resignation or dismissal of that auditors;
- discussing with external auditors' independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the quarterly, interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
- reviewing the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised.

The AC has performed the following work during the year ended 31 December, 2007:

- reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31 December, 2006 and management letter;
- reviewed with management the unaudited quarterly financial statements for the three months ended 31 March, 2007, interim financial statements for the six months ended 30 June, 2007 and the quarterly financial statements for the nine months ended 30 September, 2007;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of Group;
- reviewed the effectiveness of internal control system;
- reviewed the external auditors' statutory audit plan and engagement letter; and
- recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

Minutes of AC are kept by the Secretary. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the AC is available from the Secretary on request and is posted on the Company's website.

BOARD AND COMMITTEE ATTENDANCE

The Board has held four regular meetings in 2007. Details of the attendance of individual director at Board meetings and committee meetings during the year 2007 are set out below:

	No. of meetings attended/held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Tse Ping (Chairman and CEO)	4/4	1/1	N/A
Mr. Tao Huiqi	4/4	N/A	N/A
Mr. Wang Jinyu (Resigned on 1 February, 2007)	0/4	N/A	N/A
Mr. He Huiyu	3/4	N/A	N/A
Ms. Cheng Cheung Ling	3/4	N/A	N/A
Ms. Zhao Yanping (Resigned on 20 July, 2007)	2/4	N/A	N/A
Mr. Zhang Baowen	4/4	N/A	N/A
Mr. Tse Hsin	4/4	N/A	N/A
Independent Non-Executive Directors			
Mr. Lu Zhengfei	2/4	1/1	4/4
Mr. Li Dakui	3/4	N/A	4/4
Ms. Li Jun	2/4	1/1	4/4
No. of meetings	4	1	4

SECURITIES TRANSACTIONS BY DIRECTORS/OFFICERS

The Company has adopted a code of securities dealing for directors/senior management/employees (the “Code”) on terms no less exacting than the model code for securities transactions by directors of listed issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules, as its own code of conduct regarding securities transactions.

Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees as defined in the Code deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit to deal in securities of the Company during the black-out period for compliance with the Code.

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensured the timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim results announcements and reports, quarterly results announcements, other announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance and risk management functions.

The Group maintain a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors, Messrs Ernst & Young is set out as follows:

	Fee Paid/Payable **2007** (HK$'000)
Services rendered	
Audit Services	1,062
Non-Audit Services	–

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, quarterly results announcements, other announcements and circulars made through the Company's and Stock Exchange's websites.

The AGM and other general meetings provide a useful forum for shareholders to exchange views with the Board. Code Provision E.1.2 stipulates that the Chairman of the Board as well as the Chairmen of AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available at the AGM or other general meetings to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

For the year ended 31 December, 2007, apart from the AGM of the Company held on 18 June, 2007, the Company had held two Extraordinary General Meetings respectively on 18 June, 2007 (the "June EGM") for approving the acquisition of Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. and on 18 December, 2007 (the "December EGM") for approving the acquisition of each of Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. and Yancheng Suhai Pharmaceutical Co., Ltd.

Both Mr. Tse Ping, the Chairman and CEO of the Company and Mr. Lu Zhengfei, the Chairman of the independent board committee, were present at the June EGM. Together with Ms. Zhao Yanping and Mr. Tse Hsin, they answered questions at the June EGM. However, due to unexpected business commitment, Mr. Lu Zhengfei was unable to attend the December EGM. Mr. Tse Ping and Mr. Tse Hsin were present and answered questions at the December EGM.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting despatching to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

The Chairman of the meeting should at the commencement of the meeting made an explanation for (1) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and records.

The Company regularly releases latest corporate news of the Group's developments on its website at http://www.sinobiopharm.com. The public are welcome to give comments and make enquiries through the Company's website.

Report of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December, 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 118.

The payment for the first quarter dividend of HK1 cent per ordinary share, the interim dividend of HK1.5 cents per ordinary share, and the third quarter dividend of HK1.5 cents per ordinary share totaling HK$90,560,000 was paid during 2007.

The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year ended 31 December, 2007 to shareholders on the register of members on Tuesday, 24 June, 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
CONTINUING OPERATIONS					
TURNOVER	**1,164,274**	734,652	756,073	664,296	456,089
Cost of sales	**(205,764)**	(138,788)	(139,418)	(133,163)	(105,872)
Gross profit	**958,510**	595,864	616,655	531,133	350,217
Other income and gains	**98,367**	91,486	28,599	7,063	8,154
Selling and distribution costs	**(503,751)**	(327,720)	(310,609)	(253,390)	(176,167)
Administrative expenses	**(154,708)**	(121,802)	(110,866)	(101,885)	(79,396)
Other operating expenses	**(53,743)**	(31,254)	(42,224)	(33,382)	(18,593)
Finance costs	**(2,575)**	(2,205)	(2,729)	(1,050)	(843)
Share of profit of an associate	**216**	704	–	–	–
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT	**342,316**	205,073	178,826	148,489	83,372
Fair value adjustment	**–**	(66,315)	–	–	
PROFIT BEFORE TAX AND AFTER FAIR VALUE ADJUSTMENT	**342,316**	205,073	112,511	148,489	83,372
Tax	**(33,972)**	(22,106)	(18,311)	(15,407)	(11,625)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**308,344**	182,967	94,200	133,082	71,747
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	152,213	152,129	78,209
Gain on disposal of subsidiaries	**–**	–	1,406,191	–	–
Total profit for the year from a discontinued operation	**–**	–	1,558,404	152,129	78,209
PROFIT FOR THE YEAR	**308,344**	182,967	1,652,604	285,211	149,956
Attributable to:					
Equity holders of the parent	**224,353**	141,172	1,532,929	168,485	81,636
Minority interests	**83,991**	41,795	119,675	116,726	68,320
	308,344	182,967	1,652,604	285,211	149,956
TOTAL ASSETS	**2,595,664**	2,215,110	2,140,222	950,535	787,244
TOTAL LIABILITIES (exclude convertible bonds)	**(375,361)**	(183,611)	(164,978)	(239,845)	(215,531)
CONVERTIBLE BONDS	**–**	–	–	(42,900)	(78,000)
NET ASSETS	**2,220,303**	2,031,499	1,975,244	667,790	493,713
MINORITY INTERESTS	**(201,055)**	(122,937)	(121,997)	(211,716)	(156,348)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment, and investment properties of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2007, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of HK$45,279,000 (2006: HK$45,279,000), amounted to HK$1,549,662,000 (2006: HK$1,617,371,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

Report of Directors

DIRECTORS

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

Executive directors:
Mr. Tse Ping
Mr. Wang Jinyu (resigned on 1 February, 2007)
Mr. Tao Huiqi
Mr. He Huiyu
Ms. Cheng Cheung Ling
Ms. Zhao Yanping (resigned on 20 July, 2007)
Mr. Zhang Baowen
Mr. Tse Hsin

Independent non-executive directors:
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Li Jun

In accordance with article 87 of the Company's articles of association, Mr. He Huiyu, Mr. Tse Hsin and Mr. Lu Zhengfei will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the Company's articles of association.

The Company has received from each of the independent non-executive director an annual confirmation of independence pursuant to the new independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that the Company considers such directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 37 to 42 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2007, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company

		Number of shares held, capacity and nature of interest					
Name of director	Notes	**Capacity/ Nature of interest**	**Directly beneficially owned**	**Through controlled corporations**	**Through spouse**	**Total**	**Percentage of the Company's issued share capital**
Mr. Tse Ping	(1)	Beneficial owner	45,000,000	1,035,488,908	–	1,080,488,908	47.73%
Ms. Cheng Cheung Ling	(2)	Deemed interest	–	–	1,080,488,908	1,080,488,908	47.73%
Mr. Tao Huiqi		Beneficial owner	2,000,000	–	–	2,000,000	0.09%
Mr. Tse Hsin		Beneficial owner	26,896,000	–	–	26,896,000	1.19%

Notes:

(1) Mr. Tse Ping held 1,035,488,908 shares through Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping.

(2) Ms. Cheng Cheung Ling is the spouse of Mr. Tse Ping and is therefore deemed to be interested in the same shares in which Mr. Tse Ping has an interest.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Long position in shares of an associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares	Percentage of shareholding
Mr. Tse Ping	Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. (江蘇正大豐海製藥有限公司) ("Jiangsu Fenghai")	Interest of a controlled corporation	2,340,000	25%
	Yancheng Suhai Pharmaceutical Co., Ltd. (鹽城蘇海製藥有限公司) ("Yancheng Suhai")	Interest of a controlled corporation	2,320,500	25%
Ms. Cheng Cheung Ling	Jiangsu Fenghai	Deemed interest	2,340,000	25%
	Yancheng Suhai	Deemed interest	2,320,500	25%
Mr. Tse Hsin	Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (江蘇正大天晴藥業股份有限公司) ("JCTT")	Beneficial owner	173,250	0.18%
	Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (南京正大天晴藥業有限公司) ("NJCTT")	Beneficial owner	39,592	0.78%
Mr. Zhang Baowen	Jiangsu Fenghai	Beneficial owner	59,670	0.64%
	Yancheng Suhai	Beneficial owner	59,150	0.64%
	JCTT	Beneficial owner	173,250	0.18%
	NJCTT	Beneficial owner	39,592	0.78%
	Lianyungang Chia Tai Tianqing Medicine Co., Ltd. 連雲港正大天晴醫藥有限公司 ("Lianyungang Tianqing")	Beneficial owner	18,624	1.92%

Saved as disclosed above, as at 31 December, 2007, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2007, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long position in shares

Name	Notes	Capacity/Nature of interest	Number of underlying shares of the Company	Approximate percentage of issued share capital of the Company
Validated Profits Limited	(1)	Beneficial owner	795,488,908	35.14%
Remarkable Industries Limited	(1)	Beneficial owner	240,000,000	10.60%
The Goldman Sachs Group, Inc.	(2)	Interest of a controlled corporation	203,576,000	8.99%
Conspicuous Group Limited		Beneficial owner	142,431,091	6.29%
Chia Tai Development Investment Company Limited	(3)	Interest of a controlled corporation	142,431,091	6.29%
Mr. Dhanin Chearavanont	(4)	Interest of a controlled corporation	142,431,091	6.29%

Notes:

(1) Each of Validated Profits Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Mr. Tse Ping who is a Director.

(2) The 203,576,000 shares were held by Goldman Sachs (Asia) Finance ("Goldman Finance"). Based on the disclosure of interests filing received by the Company, Goldman Finance is a controlled corporation of Goldman Sachs (Asia) Finance Holdings L.L.C., which in turn is a controlled corporation of Goldman Sachs & Co., which in turn is a controlled corporation of The Goldman Sachs Group, Inc., all of which are deemed under SFO to be interested in the same 203,576,000 shares.

(3) Chia Tai Development Investment Company Limited ("CT Development") has declared an interest in the same 142,431,091 shares in which Conspicuous Group Limited has declared an interest, by virtue of its shareholding in Conspicuous Group Limited.

(4) Mr. Dhanin Chearavanont has declared an interest in the same 142,431,091 shares in which CT Development has declared an interest for the purpose of the SFO as mentioned in Note (3) above, by virtue of his shareholding in CT Development.

Save as disclosed above, as at 31 December, 2007, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors and Chief Executives' interests and short positions in share, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

During the year, the Group have the following related party transactions, as further detailed in note 37 to the financial statements, which also constituted continuing connected transactions under the Listing Rules for a term from 18 September, 2006 to 31 December, 2007:–

(i) Sale and distribution of certain pharmaceutical products to Lianyungang Tianqing by JCTT, a 60% subsidiary of the Company by JCTT. Lianyungang Tianqing has become a wholly-owned subsidiary of JCTT in 2007.

(ii) Sale and distribution of certain pharmaceutical products to Lianyungang Tianqing by NJCTT, a company held as to 51% by JCTT.

(iii) Sale and distribution of certain pharmaceutical products to Lianyungang Tianqing by Jiangsu Fenghai, a company then held as to 51% (indirect) by Mr. Tse Ping, Chairman of the Company. Pursuant to an agreement dated 9 November, 2007 (details as stated below), Jiangsu Fenghai would become a 50.98% subsidiary of JCTT.

(iv) Sale and distribution of certain pharmaceutical products to Lianyungang Tianqing by Jiangsu Qing Jiang Pharmaceutical Co., Ltd. (name subsequently changed to "Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd.") ("Jiangsu Qingjiang"), a company then held as to 39.2% by Jiangsu State Agribusiness Group Corporation Limited ("Jiangsu Agribusiness") which holds a 33.5% equity interest in JCTT. Pursuant to the agreements dated 10 May, 2007 and 29 January, 2008 (details as stated below) respectively, Jiangsu Qingjiang would become an indirect 55.59% subsidiary of the Company.

During the year, the Group also have the following transactions which constituted continuing connected transactions under the Listing Rules for a term of three years from 1 January, 2006 to 31 December, 2008:–

(i) Purchases of raw materials by JCTT from Jiangsu State Agribusiness Commercial Commodities Limited, a wholly owned subsidiary of Jiangsu Agribusiness.

(ii) Provision of technology development services for certain pharmaceutical products by Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CT Green Continent"), a 75% subsidiary of the Company to Xian C.P. Pharmaceutical Co., Ltd., a company then held as to 60% (indirect) by Mr. Tse Ping, Chairman of the Company.

(iii) Provision of technology development services for certain pharmaceutical products by CT Green Continent to Jiangsu Fenghai.

CONNECTED TRANSACTIONS (Continued)

During the year, the Group have also entered into the following agreements, which constituted connected/continuing connected transactions under the Listing Rules, details of which please refer to the respective announcements:–

On 10 May, 2007, Chia Tai Pharmaceutical (Lianyungang) Company Limited, a wholly-owned subsidiary of the Company, has entered into an agreement with Golden Bloom Pharmaceutical Company Limited, a substantial shareholder of NJCTT, which is a connected person of the Company, regarding the acquisition of 4.6% of NJCTT for US$303,200 (approximately HK$2,364,960*).

On 10 May, 2007, Fine Enterprise Investment Limited ("Fine Enterprise"), a wholly-owned subsidiary of the Company, has entered into an agreement with CT Green Continent, Jiangsu Juxin Investment Management Corporation Limited ("Jiangsu Juxin") (owned as to 51% by Jiangsu Agribusiness), a connected person of the Company and Huaian Hongda Investment Consulting Centre ("Huaian Hongda") regarding the acquisition by Fine Enterprise from CT Green Continent, Jiangsu Juxin and Huaian Hongda the 20%, 16.8% and 0.48% equity interests in the registered capital of Jiangsu Qingjiang for RMB4,500,000 (approximately HK$4,455,000*), RMB5,220,000 (approximately HK$5,167,800*) and RMB150,000 (approximately HK$148,500*), respectively.

On 10 May, 2007, Fine Enterprise has also entered into the new joint venture contract and new articles of association with Jiangsu Agribusiness and Huaian Hongda whereby Fine Enterprise has agreed to contribute RMB10,530,000 (approximately HK$10,424,700*) to Jiangsu Qingjiang and that upon completion of the capital increase, Jiangsu Qingjiang would be owned as to 51%, 30.62% and 18.38% by Fine Enterprise, Jiangsu Agribusiness and Huaian Hongda, respectively.

On 9 November, 2007, JCTT has entered into the new joint venture contract, new articles of association and capital increase agreement with Ace Elite Investments Limited ("Ace Elite") (wholly-owned by Mr. Tse Ping, Chairman of the Company), a connected person of the Company, Jiangsu Agribusiness and Da Feng Hang Chang Consultation Centre ("Da Feng") whereby JCTT has agreed to contribute a total of RMB48,404,000 (approximately HK$49,437,000*) to Jiangsu Fenghai. Upon completion of the capital increase, Jiangsu Fenghai would be owned as to 25%, 14.71%, 9.31% and 50.98% by Ace Elite, Jiangsu Agribusiness, Da Feng and JCTT, respectively.

On 9 November, 2007, JCTT has also entered into the new joint venture contract, new articles of association and capital increase agreement with Ace Elite, Jiangsu Agribusiness and Da Feng whereby JCTT has agreed to contribute RMB4,731,900 (approximately HK$4,833,000*) to the registered capital of Yancheng Suhai Pharmaceutical Co., Ltd. ("Yancheng Suhai") and RMB1,818,100 (approximately HK$1,857,000*) to the capital reserve of Yancheng Suhai. Upon completion of the capital increase, Yancheng Suhai would be owned as to 25%, 14.71%, 9.31% and 50.98% by Ace Elite, Jiangsu Agribusiness, Da Feng and JCTT, respectively.

On 9 November, 2007, Lianyungang Tianqing, a wholly-owned subsidiary of JCTT, as the purchaser, has entered into an agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the sale and distribution of cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines for three years from 1 January, 2008 to 31 December, 2010 for not exceeding RMB20,000,000 (approximately HK$20,427,000*), RMB25,000,000 (approximately HK$25,534,000*) and RMB30,000,000 (approximately HK$30,640,000*), respectively.

CONNECTED TRANSACTIONS (Continued)

On 9 November, 2007, Lianyungang Tianqing, as the purchaser, has also entered into an agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the sale and distribution of anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines for three years from 1 January, 2008 to 31 December, 2010 for not exceeding RMB5,000,000 (approximately HK$5,107,000*), RMB7,000,000 (approximately HK$7,149,000*) and RMB9,000,000 (approximately HK$9,192,000*), respectively.

Subsequent to the balance sheet date, the Group has also entered into the following agreements, which constituted connected/ continuing connected transactions under the Listing Rules, details of which please refer to the respective announcements:–

On 2 January, 2008, JCTT has entered into four land use right transfer agreements with Jiangsu Agribusiness (a connected person of the Company) in relation to the acquisition of certain land use rights of the property located at Lianyungang, the PRC at an aggregate consideration of RMB39,690,000 (approximately HK$41,837,000*).

On 29 January, 2008, JCTT has entered into the capital increase agreement, new joint venture contract and new articles of association with Fine Enterprise, Jiangsu Agribusiness (a connected person of the Company) and Huaian Hongda whereby JCTT has agreed to contribute RMB38,326,400 (approximately HK$40,400,000*) to Jiangsu Qingjiang. Upon completion of the capital increase, Jiangsu Qingjiang would be owned as to 25%, 15.01%, 9.01% and 50.98% by Fine Enterprise, Jiangsu Agribusiness, Huaian Hongda and JCTT, respectively.

On 29 January, 2008, CT Green Continent, a 75%-owned subsidiary of the Company, has entered into the supplemental agreement with Jiangsu Qingjiang (a connected person of the Company) whereby the payment terms of the capital contribution in respect of the 20% equity interest in Jiangsu Qingjiang contributed by CT Green Continent were amended such that the same would be paid by CT Green Continent in the sum of RMB4,500,000 (approximately HK$4,743,000*) instead of by the transfer of ten pharmaceutical products to Jiangsu Qingjiang.

On 29 January, 2008, CT Green Continent has also entered into the purchase agreement with Jiangsu Qingjiang whereby Jiangsu Qingjiang has agreed to purchase four pharmaceutical products from CT Green Continent for RMB2,600,000 (approximately HK$2,741,000*).

The independent non-executive directors have reviewed the terms and transactions and conformed to the Board of Directors that, in their opinion, the transactions, and the arrangements governing those transactions, are entered into by the relevant members of the Group in the ordinary and usual course of business and on normal commercial terms, and were fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

* The exchange rates used for the conversion of RMB into Hong Kong dollars represented the exchange rates on the dates of the respective announcements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2007.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

As at 31 December, 2007, the following director was considered to have interests in a business which competes or was likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below.

Mr. Tse Ping owns controlling interests or investment interests in Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC"), ABH Nature's Products Inc. ("ABH"), Jiangsu Fenghai and Yancheng Suhai.

HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States. Jiangsu Fenghai is principally engaged in the production and distribution of raw material and preparation of antibiotics and synthetic drugs. Yancheng Suhai is principally engaged in the production and distribution of antibiotics and raw materials.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group.

Mr. Tse Ping has executed a deed of non-competition undertaking in favour of the Company on 9 September, 2003 which has become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange.

Pursuant to the Undertaking, Mr. Tse Ping has undertaken to the Company that, conditional upon the commencement of trading in the shares on the Main Board, for so long as (i) Mr. Tse Ping, together with his associates, shall remain beneficially interests, directly or indirectly, in shares with at least 30 per cent. of the voting rights of the Company (from time to time), and (ii) the shares shall remain traded on the Main Board, neither Mr. Tse Ping nor any of Mr. Tse's Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (saved through Mr. Tse's interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the Undertaking:–

"Mr. Tse's Company(ies)" refers to any of the companies or other entities of which more than 50 per cent. of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature;

"Restricted Business" refers to:–

(i) the research and development, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernized Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and

(ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases; and

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Continued)

"Territory" refers to the PRC (including Hong Kong).

The Undertaking does not apply to the following:–

(i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;

(ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse Ping and/or his associates do not amount to more than 20 per cent. of the issued shares or other securities of the company in question; and

(iii) the investment by Mr. Tse Ping and/or Mr. Tse's Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse or Mr. Tse's company, in either case in accordance with paragraph below.

In the event that Mr. Tse Ping or any Mr. Tse's Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which Xian C.P. Pharmaceutical Co., Ltd. and/or HTPC is/are engaged as at the date of the Undertaking) (the "Proposed Business"), Mr. Tse will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse and/or any Mr. Tse's Company shall be provided to the Company. The independent non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:–

(i) reject the said opportunity in its entirety; or

(ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or

(iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse Ping (including through a Mr. Tse's Company) takes up the balance of the investment upon terms approved by the independent non-executive Directors.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

EMOLUMENT POLICY

Including the Directors, the Group had around 3,522 employees as at 31 December, 2007. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as share option scheme.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company has taken into consideration of their expertise and job specifications.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code Provisions set out in the Code on Corporate Governance as set out in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December, 2007, with the exception of the following deviations:–

1. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping is the chairman and chief executive officer of the Company. The Board considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve a better balance of power and authority, the chairman discusses important issues and decisions relating to the Group's business with other Executive Directors.

2. Code Provision E.1.2 stipulates that the chairman of the independent board committee should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval. Due to unexpected business commitment, Mr. Lu Zhengfei was unable to attend an extraordinary general meeting held on 18 December, 2007 for approving the connected transactions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, it was confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of the independent non-executive directors ("INEDs") and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three INEDs including one with financial management expertise, details of their biographies were set out in this annual report.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code on Corporate Governance Practices. The primary duties of the Committee are to review the Company's annual and interim reports and accounts, and quarterly results and to provide advice and comments thereon to the board of directors. The Committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Committee has three members comprising the three INEDs, Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

The Group's financial statements for the year ended 31 December, 2007 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tse Ping
Chairman

PRC
27 March, 2008

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. Tse Ping（謝炳先生）, aged 56, is the Founder, Chairman and CEO of the Company. He is responsible for the overall operations of the Group. With more than 17 years of pharmaceutical related investment and management experience, Mr. Tse was formerly the vice-chairman of Shenzhen 999 Pharmaceutical Co., Ltd.（深圳三九藥業有限公司）, and was involved in the management of Hainan Qingqihaiyao Stock Company Limited（海南輕騎海藥股份有限公司）(formerly known as Hainan Pharmaceutical Industrial Joint-Stock Company Limited（海南海藥實業股份有限公司）, and is now listed on the Shenzhen Stock Exchange in the PRC, Mr. Tse was also the chairman of CTQ which is now a subsidiary of SIIC Medical, the chairman of Xian C.P. Pharmaceutical Co., Ltd. and the executive chairman of TM International Bank Co., Ltd, based in Shanghai. He is also a director of CTQ, a committee member of the Association of Pharmaceutical Biotechnology of China and an honoral professor of Shenyang University of Pharmacy. Beyond the pharmaceutical and biotechnology fields, Mr. Tse is the vice-chairman of Chia Tai Enterprises International Limited, an investment holding company listed on the Main Board. He is also a member of the Ninth, Tenth and the Eleventh National Committee of the Chinese People's Political Consultative Conference and was awarded World Outstanding Chinese in 2008.

Mr. Tao Huiqi（陶惠啟先生）, aged 58, joined the Group in April, 1997 and is the vice chairman and president of JCTT. He is responsible for the general operations of JCTT and NJCTT. He. He is a university graduate and senior economist. Mr. Tao has extensive experience in managing pharmaceutical companies. He has been awarded the title of an "Outstanding Entrepreneur" by the China Pharmaceutical Enterprises Management Association, Association of Entrepreneur Medicine of China and the State Medicine Commission, the Jiangsu Economic Planning Commission, and Jiangsu Pharmaceutical Administration, respectively.

Mr. He Huiyu（何惠宇先生）, aged 64, joined the Company as an executive director in January, 2005. He graduated from the medical department in Hunan Medical College in 1968. He is a chief doctor, professor, researcher, and a director of Beijing Tide, a jointly-controlled entity of the Company. Mr. He has over 35 years experience in clinical medical treatment, scientific research management, and integrated traditional Chinese Medicine and Western medicine and clinical research and development. He has been the chairman of Hunan Hengyang Traditional Chinese Medicine and Western Medicine Integration Hospital and Hunan Hengyang Central Hospital, chief executive of the Bureau of Chinese Pharmaceutical Management and the chairman of China-Japan Friendship Hospital. Mr. He is a member of the Tenth National Committee of the Chinese People's Political Consultative Conference. He is also the vice chairman of Association of International Development of Medicines and Health of the PRC.

Ms. Cheng Cheung Ling（鄭翔玲女士）, aged 43, joined the Company as an executive director in January, 2005. She is an executive director of the Company. Ms. Cheng is a medical practician graduated from Medical Profession College. She is responsible for the public relation affairs of the Group. She is also the committee member of China Overseas Friendship Association, a vice chairlady of the Shaanxi Province Federation of Industry and Commerce, and a member of the Standing Committee of the Chinese People's Political Consultative Conference Shaanxi Provincial Committee. She is the spouse of Mr. Tse Ping, both the executive director and substantial shareholder of the Company.

Directors and Senior Management Profile

Mr. Zhang Baowen（張寶文先生）, aged 51, is an Executive Vice President and a senior engineer of the Company, and principally responsible for the Group's business development and management. He is a graduate of the Shenyang Pharmaceutical University with a bachelor degree in science. Mr. Zhang joined the Group in October, 1994 and has extensive experience in the pharmaceutical industry. Mr. Zhang was previously appointed as the head of the Group's investment division. He is currently an executive director of JCTT, NJCTT, Lianyuangang Chia Tai Tianqing Medicine Co., Ltd., Lianyuangang Chia Tai Hualing, Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd., Yancheng Suhai Pharmaceutical Co., Ltd., Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd., Hainan Tigerlily Pharmaceutical Co., Ltd. and CTGC. Mr. Zhang is a member of the 20th and 21st committee of the China Medicine Association. He is the editor of the China Pharmaceutical Technological Economics and Management Journal. He has over 25 years of experience in the pharmaceutical industry.

Mr. Tse Hsin（謝炘先生）, aged 38, is an Executive Director and a Vice President of the Company. He is mainly responsible for the acquisition and merger activities of the Group. He is also the Group's spokesman. Mr. Tse graduated from the University of Hong Kong with a Bachelor's Degree (Honors) in Industrial Engineering. He joined the Group in August, 1995 as an assistant to the President of the Company and served as the Managing Director of Xian C.P. Pharmaceutical Co., Ltd. Mr. Tse is a council member of the first council and the executive council member of the second council of Chaozhou Natives Chamber of Commerce Beijing. He is also an executive member of the Right Protection Association for the Medical Treatment Equipment Enterprises of the Shaanxi Province, the vice chairman of the fourth council of the Foreign Invested Enterprises Association of the Shaanxi Province, the executive member of the third committee of the Shaanxi Cancer Fighting Association and the vice chairman of the World Chinese Medicine and Pharmaceutical Professional Joint Committee. He was also awarded the "Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province" and "Outstanding Entrepreneur who cares about his staff" by the Shaanxi Provincial Government. He is also an executive director of Beijing Tide, a director of JCTT, Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd. ("Lianyungang Chia Tai Hualing") and the director and vice president of Chia Tai Healthcare (Holding) Limited. He is a first cousin of Mr. Tse Ping, the Founder, Chairman, Chief Executive Officer and Executive Director of the Company and the brother of Ms. Tse Wun, a member of the senior management of the Company.

Independent non-executive Directors

Mr. Lu Zhengfei（陸正飛先生）, aged 44, is the chairman of the audit committee and a member of the remuneration committee. He received P.h.D. degree in economics with concentration in financial management. Mr. Lu is currently the Vice Chairman, Professor and supervisor of doctoral students, Guanghua School of Management of Peking University. He has previously held various senior positions in the Department of Accounting of both Peking University and Nanjing University. He is the consulting expert of the China Financial Accounting Standards Board, Ministry of Finance. He is also a director of the China Accounting Association and an executive director of the China Auditing Association. Mr. Lu is the editor of several accounting and finance journals and he has issued various publications. He is an independent non-executive director of PICC Property and Casualty Company Limited and Sinotrans Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited.

Mr. Li Dakui（李大魁先生）, aged 63, joined the Company as an independent non-executive director and a member of the audit committee in September, 2004. He graduated from the Faculty of Pharmacy of Beijing Medical University (now named Faculty of Medicine and Pharmacy of Beijing University). In 1983, he obtained a Master degree in Pharmaceutics from Peking Union Medical College ("PUMC") and is the chief pharmacist of PUMC Hospital and used to be a director of Pharmacy Department of PUMC Hospital. Mr. Li is also a vice president of the Chinese Pharmaceutical Association, the Chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association, the vice chairman of the Chinese Practicing Pharmacist Association, a vice editor of Chinese Pharmaceutical Magazine and Chinese Hospital Pharmaceutical Journal and Chinese Journal of Hospital Pharmacy, a member of the Chinese Pharmaceutical Committee and vice team leader of its medicine professional team, a member of the Drug Evaluation Committee of State Food and Drug Administration of China. Mr. Li is a member of advisory committee on safety of medicinal products meeting organized by World Health Organization.

Ms. Li Jun（李軍女士）, aged 39, joined the Company as an independent non-executive director and a member of the audit committee in January, 2005. She is also a member of the remuneration committee. She obtained a Bachelor degree in International Law from Fudan University (Law Department) and a Master Degree in Economic Law from Peking University (Law Department). She has been qualified as a PRC lawyer since 1992. She has also studied at SOAS, London. Ms. Li joined Zong Heng Law Firm, Beijing as one of the founding partners in 1993. She has previously worked with Joseph & Chan, Hong Kong and Clifford Chance, Hong Kong as a senior PRC lawyer. She has extensive experience in various areas of litigation, arbitration and dispute resolution work, mainly commercial disputes, civil tort and administrative disputes.

SENIOR MANAGEMENT

Ms. Leung Sau Fung, Fanny（梁秀鳳女士）, is the assistant vice president and the company secretary of the Company. She joined the Group in February, 1992. She is responsible for overseeing the corporate compliance of the Group's listed and statutory issues. She obtained a Honours Diploma in Company Secretaryship and Administration. She is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Before joining the Group, Ms. Leung worked in the Company Secretarial Department of an international audit firm.

Ms. Yu Chau Ling（余秋玲女士）, is the financial controller and qualified accountant of the Company. She graduated from the University of Hong Kong with a bachelor degree in Social Sciences and obtained the MBA degree from The Open University of Hong Kong in 2005. She is the fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants respectively. Ms. Yu joined the Company in February, 2003 and has working experience in the international audit firm and listed companies.

Ms. Chen Xiaofeng（陳曉楓女士）, aged 54, is the officer of audit division of the Company. She is principally responsible for the Group's internal audit issues. Ms. Chen joined the Group in November, 1993 and was the manager of the investment division, deputy controller of the accounting division, controller of the finance and accounting division and the financial controller in the PRC. She was a director of CTF and is a director of Beijing Tide and NJCTT. Ms. Chen is a certified accountant in the PRC and has over 25 years of experience in accounting and finance.

Ms. Cheng Hui（程惠女士）, aged 44, is the deputy financial controller of the Group. Ms. Cheng joined the Group in May, 1993 and is responsible for the Group's PRC financial and personnel issues. She has been the head of the finance department in China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 20 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel in 1992, and ACCA Chinese finance and accounting qualification certificate issued by Chartered Association of Certified Accountants. Ms. Cheng received international advanced human resources management professional training held by the International Public Management Association for Human Resources (IPMA-HR).

Ms. Li Mingqin（李名沁女士）, aged 49, is the general manager of the Group's R&D division in the Beijing Representative Office, the director and deputy general manager of CTGC and the director of Beijing Tide. She is principally responsible for the research and development of new medicines for the Group. Ms. Li graduated from the Faculty of Medicine of the Beijing Chinese Medicine University with a bachelor degree in medicine. Prior to joining the Company, Ms. Li has worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in the teaching of medicines, R&D of new medicines and medicines management. During the period from 1992 to 1995, Ms. Li has been engaged in Post-doctorate research in the Medicine School of University of Colorado, USA and the Medical College in the University of Massachusetts. Ms. Li joined the Group in March, 1997 and she has more than 20 years of experience in the pharmaceutical industry.

Directors and Senior Management Profile

Ms. Dong Ping（董萍女士）, aged 39, is the general manager of finance and accounting division of the Company. Ms. Dong joined the Group in June, 2000. She graduated from the Economic Management Department of Beijing Youth Politics College. She also holds Certificate of Completion of Executive MBA Programme for Marketing Management of Pharmaceutical Industry jointly awarded by Beijing Asia-Pacific Education Centre and Social Development Research Institute, and Beijing Qunyin Enterprise Management Corporation Ltd.. Ms. Dong has been the deputy manager of the financial division of the Group, the deputy general manager of Finance and accounting division of Xian Chia Tai Pharmaceutical Co. Ltd. and the assistant to the Financial Controller of the Company in the PRC. Ms. Dong has about 16 years of experience in accounting and finance, and is a certified accountant in China.

Mr. Sun Jian（孫鍵先生）, aged 46, is a senior vice president of JCTT and the general manager of Lianyungang Tianqing. Mr. Sun joined the Group in April, 1997 and has extensive experience in sales and production management. Mr. Sun was a senior vice president of JCTT. He graduated from Nanjing Polytechnic Institute with a degree in engineering. He has over 20 years of experience in pharmaceutical industry.

Mr. Tian Zhoushan（田舟山先生）, aged 44, joined the Group in April, 1997 and is responsible for the business of NJCTT. Mr. Tian is a vice president of JCTT and the general manager of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the production manager, and assistant to the president of JCTT. Mr. Tian has 20 years of experience in the pharmaceutical industry.

Ms. Han Caifeng（韓才峰女士）, aged 49, joined the Group in July, 2007 and is the general manager and director of Jiangsu Qingjiang. She obtained a Bachelor's Degree and graduated as a post-graduate in the Department of Enterprise Management of Nanjing University. She is the vice president of the Sino-Western Medical Practician Society of the Jiangsu Province. She has over 20 years' experience in pharmaceutical enterprise management.

Mr. Li Jinming（李金明先生）, aged 43, is the deputy general manager of Lianyungang Tianqing. Mr. Li studied in the pharmaceutical major of Chinese Pharmaceutical University. Mr. Li holds the MBA degree awarded jointly by Huadong University of Science and Technology and America University of Management and Technology. Mr. Li has over 10 years experience as major district manager in pharmaceutical sales in two well-known pharmaceutical enterprises in China. He was the major district manager of JCTT for five years. Mr. Li has extensive sales and management experience.

Mr. Qu Yunzhi（曲韵智先生）, aged 52, joined the Group in October, 2002 and is responsible for the business of CTGC. He is the vice chairman and the general manager of CTGC. He obtained a Master degree in medical science in Inner Mongolia Medical University. Mr. Qu was the chairman of Hohhot Natural Pharmacy Industrial Research Institute. Mr. Qu has 25 years of experience in the scientific research of medicines and has expertise in R&D of dripping pills.

Mr. Tang Zhaocheng（唐兆成先生）, aged 41, is a vice president of JCTT. He is responsible for the production management of JCTT. Mr. Tang joined JCTT in April, 1997. He has a professional qualification in chemical engineering. Mr. Tang has been a vice officer in technological production, and a manager in quality control as well as a chief officer in GMP and assistant to president of JCTT. He has been a team leader in the production of Ganlixin and Zegui Longshuang in JCTT. Mr. Tang has over 15 years of experience in the pharmaceutical industry.

Mr. Wang Hong（王宏先生）, aged 44, is a deputy general manager of Lianyungang Tianqing and is responsible for the sales management. Mr. Wang graduated from Shanghai Medical University in 1991 with a Master degree in medical science. He also holds an MBA degree from the Business School of the National University of Singapore. He was the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. where he had worked for 8 years. Mr. Wang has more than 10 years of experience in sales and he joined the Group in December, 2002, he was a vice president of JCTT and was responsible for sales management.

Mr. Zhang Xiquan（張喜全先生）, aged 38, is the chief engineer of JCTT. Mr. Zhang graduated from Nankai University in 1994 with a M.S. degree. He has carried out studies of a number of new drugs with expertise in drug candidate selection and drug development with partners. Mr. Zhang joined JCTT in April, 1997.

Ms. Gu Liping (顧莉萍女士), aged 46, is a vice president of JCTT. She is principally responsible for the public relation affairs for JCTT. She graduated from the department of chemistry of Nanjing University and holds a M.S. degree. Ms. Gu is a senior engineer and she joined the Group in December, 2001. She was the vice director of the finance division of Jiangsu Agribusiness and the deputy general manager of Jiangsu Juxin Investment Management Company Limited.

Mr. Zhang Xichang (張夕昌先生), aged 66, is a senior advisor of JCTT. Mr. Zhang has been a workshop officer, deputy factory director and vice president of JCTT and was responsible for the production, sales, finance and R&D of JCTT. Mr. Zhang has over 30 years experience in pharmaceutical enterprise management. Mr. Zhang joined the Group in April, 1997.

Ms. Wu Ruizhen (吳瑞珍女士), aged 60, is a deputy general manager and financial controller of Lianyungang Tianqing. She graduated from Gansu Television Broadcast University with a degree in industrial accounting. Ms. Wu joined the Group in January, 1997 and was a vice president of finance and accounting division of JCTT and a senior advisor of JCTT. Ms. Wu has over 30 years of experience in finance.

Dr. Ye Wei Nong (葉衛農博士), aged 45, is the assistant president of the Company and deputy general manager of the technology department. He is responsible for the Group's development on Biotechnology. Dr. Ye graduated from Zhongshan (Dr. Sun Yat-Sen) University with a bachelor degree in science. In 1989, Dr. Ye obtained a doctoral degree (Ph.D.) in microbiology in Institut National des Sciences Appliquees de Toulouse of France. He also obtained a certificate of study for Masters specialised in marketing and food technology in Ecole Superieure de Commerce de Toulouse of France. Prior to joining the Group in July, 2002, Dr. Ye worked in Europe and Hong Kong for biotechnology and pharmaceutical companies.

Ms. Chia Fai (謝輝女士), aged 50, is an assistant to the chairman of the Company and personnel manager. Ms. Chia joined the Group in November, 1991 and has more than 20 years of experience in financial area. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Co., Ltd., Talent Forward Ltd., Sino Biopharmaceutical (Beijing) Ltd. and Magnificent Technology Ltd. She is a sister of Mr. Tse Ping.

Ms. Tse Wun (謝瑗小姐), aged 41, is an assistant to the chairman of the Company. She joined the Group in November, 1991. She is principally responsible for the Group's administration and financial matters in Hong Kong. Ms. Tse graduated from the University of Oregon with a B.S. degree. She was formerly a director of Shenzhen 999 Pharmaceutical Co., Ltd. and has 10 years of experience in finance and investment. She is a first cousin of Mr. Tse Ping.

Ms. Li Chun Ling (李春玲女士), aged 36, is a vice president of JCTT. She is responsible for the financial and accounting affairs of JCTT. Ms. Li joined the Group in February, 1996 and was a manager in the audit department and finance and accounting department of the Group. Ms. Li graduated from Guizhou College of Finance and Accounting. Before joining the Group, Ms. Li had worked in audit firms and as a team in-charge for social auditing of projects. Ms. Li has over 10 years experience in finance and accounting, and is a certified accountant in the PRC.

Mr. Lu Yuehui (呂月輝先生), aged 54, is the financial controller and a deputy general manager NJCTT. He joined the Group in February, 1995. Mr. Lu graduated from the Department of Foreign Language Department in Beijing Hongqi University and Department of Accountancy in Beijing Finance and Trade Institute. He was an instructor of the Department of Accountancy in Beijing Economic Management Cadre College. Mr. Lu has been the manager of audit department and manger of finance and accountancy in the Group. Mr. Lu has 25 years of experience in finance and accounting profession and is a qualified accountant.

Mr. Zhang Zhenqian (張震乾先生), aged 38, is the deputy general manager and an engineer of NJCTT. Mr. Zhang joined the Group in April, 1997 and is responsible for the sales and operation of NJCTT. Graduated from Xuzhou College of Engineering, Mr. Zhang has completed the studies in EMBA program in Guanghua Management School in Beijing University. Mr. Zhang has over ten years experience in pharmaceutical industry and was a branch manager, major district manager of JCTT.

Directors and Senior Management Profile

Mr. Tse Hsuan, Johnny（謝炫先生）, aged 38, is the deputy general manager of the company's Information Management Department. He joined the Group in January, 2003. He is principally responsible for the development and maintenance of information system for the Company. Mr. Tse graduated from the University of Oregon with a B.S. degree in computer science in the United States. He also graduated from ESMOD Paris (Ecole International de Mode Paris) with a diploma in fashion design and pattern drafting. Before joining the Company, Mr. Tse worked in Beijing Major Kind Co., Ltd. engaged in fashion design and computer system maintenance. His design of uniform for air attendants was adopted by Air China. He is a first cousin of Mr. Tse Ping.

Mr. Wang Yonggan（王永干先生）, aged 30, is the assistant to the Company's financial controller in the PRC. Mr. Wang studied in the department of economics with concentration in accounting at Shandong University of Science and Technology and graduated with a Bachelor degree in economics. In September, 1999 Mr. Wang joined the Group and was the deputy manager in the finance and accounting division of JCTT, and was the financial manager of the Company. Mr. Wang holds China's Certified Public Accountant certificate and Registered Tax Agent certificate.

Mr. Jiang Yi（蔣誼先生）, aged 41, is the deputy general manager of the investment management department of the Company. Mr. Jiang joined the Group in March, 2004 and is principally responsible for new project investment and management. Mr. Jiang graduated from The Third Military Medical University with a Bachelor degree in medical science. Mr. Jiang has been the regional business manager and national business manager for about nine years in China representative offices of foreign pharmaceutical enterprises. He has about 14 years of experience in sales and marketing in pharmaceutical industry.

Mr. Shen Xiaoguang（沈曉光先生）, aged 36, is the deputy general manager of the investment management department of the Company. Mr. Shen participates in the business development and management of the Group, and is responsible for the market analysis of main products and R&D of new products. Mr. Shen graduated from the Heilongjiang College of Business with a B.S. degree in pharmaceutical manufacturing, and has about 10 years experience in pharmaceutical sales and marketing and product R&D. Mr. Shen joined the Group in February, 2003.

Corporate Information

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors
Mr. Tse Ping *(Chairman)*
Mr. Tao Huiqi
Mr. He Huiyu
Ms. Cheng Cheung Ling
Mr. Zhang Baowen
Mr. Tse Hsin

Independent non-executive Directors
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Li Jun

AUDIT COMMITTEE

Mr. Lu Zhengfei *(Chairman)*
Mr. Li Dakui
Ms. Li Jun

REMUNERATION COMMITTEE

Mr. Tse Ping *(Chairman)*
Mr. Lu Zhengfei
Ms. Li Jun

COMPANY SECRETARY

Ms. Leung Sau Fung, Fanny

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUTHORISED REPRESENTATIVES

Mr. Tse Ping
Ms. Leung Sau Fung, Fanny

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
166 Hennessy Road
Wanchai
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Agricultural Bank of China, Lianyungang Branch
No. 43 North Tong-guan Road
Xinpu, Lianyungang
Jiangsu Province
PRC

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:
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41st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Century Yard
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Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

As to PRC Law:
Navigator Law Office
308A, Tower C2
Oriental Plaza No. 1
East Chang An Ave
Dong Cheng Districts
Beijing
PRC

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

Independent Auditors' Report

TO THE SHAREHOLDERS OF SINO BIOPHARMACEUTICAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Sino Biopharmaceutical Limited set out on pages 47 to 118, 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 disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

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

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company 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 disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
18 Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong
27 March, 2008

Consolidated Income Statement

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**1,164,274**	734,652
Cost of sales		**(205,764)**	(138,788)
Gross profit		**958,510**	595,864
Other income and gains	5	**98,367**	91,486
Selling and distribution costs		**(503,751)**	(327,720)
Administrative expenses		**(154,708)**	(121,802)
Other expenses		**(53,743)**	(31,254)
Finance costs	7	**(2,575)**	(2,205)
Share of profit of an associate		**216**	704
PROFIT BEFORE TAX	6	**342,316**	205,073
Tax	10	**(33,972)**	(22,106)
PROFIT FOR THE YEAR		**308,344**	182,967
Attributable to:			
Equity holders of the parent	13	**224,353**	141,172
Minority interests		**83,991**	41,795
		308,344	182,967
DIVIDENDS	12		
Interim		**90,560**	67,920
Proposed final		**45,279**	45,279
		135,839	113,199
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK9.91 cents**	HK6.24 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**339,400**	237,955
Prepaid land lease payments	15	**29,282**	16,541
Goodwill	16	**44,322**	42,031
Other intangible assets	17	**29,804**	19,343
Interest in an associate	20	**–**	5,189
Available-for-sale investments	21	**63,895**	29,820
Deferred tax assets	30	**15,076**	4,244
Total non-current assets		**521,779**	355,123
CURRENT ASSETS			
Inventories	22	**70,125**	40,877
Trade receivables	23	**199,751**	112,268
Prepayments, deposits and other receivables	24	**26,238**	20,488
Due from related companies	37	**2,020**	2,192
Cash and bank balances	25	**1,775,751**	1,684,162
Total current assets		**2,073,885**	1,859,987
CURRENT LIABILITIES			
Trade payables	26	**36,167**	23,868
Other payables and accruals	27	**227,608**	136,249
Interest-bearing bank borrowings	28	**36,980**	–
Tax payable		**18,292**	9,873
Due to related companies	37	**4,553**	917
Total current liabilities		**323,600**	170,907
NET CURRENT ASSETS		**1,750,285**	1,689,080
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,272,064**	2,044,203

Consolidated Balance Sheet

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**21,376**	–
Deferred government grants	29	**7,551**	7,475
Deferred tax liabilities	30	**13,993**	5,229
Due to related company	37	**8,841**	–
Total non-current liabilities		**51,761**	12,704
Net assets		**2,220,303**	2,031,499
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	31	**56,599**	56,599
Reserves	33(a)	**1,917,370**	1,806,684
Proposed final dividend	12	**45,279**	45,279
		2,019,248	1,908,562
Minority interests		**201,055**	122,937
Total equity		**2,220,303**	2,031,499

Mr. Zhang Baowen
Director

Mr. Tse Hsin
Director

Consolidated Statement of Changes in Equity

	Notes	Issued capital HK$'000 (note 31)	Share premium account HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Contributed surplus HK$'000	Reserve funds HK$'000 (note 33(a))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 (note 12)	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the parent											
At 1 January, 2006		56,599	281,846	17,520	7,961	20,743	67,885	5,841	1,360,893	33,959	1,853,247	121,997	1,975,244
Exchange realignment		–	–	–	–	–	4,661	8,845	–	–	13,506	–	13,506
Total income and expense recognised directly in equity		–	–	–	–	–	4,661	8,845	–	–	13,506	–	13,506
Profit for the year		–	–	–	–	–	–	–	141,172	–	141,172	41,795	182,967
Total income and expense for the year		–	–	–	–	–	4,661	8,845	141,172	–	154,678	41,795	196,473
Capital contribution by minority interests of a subsidiary		–	–	–	–	–	–	–	–	–	–	3,112	3,112
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(45,376)	(45,376)
Final 2005 dividend declared		–	–	–	–	–	–	–	–	(33,959)	(33,959)	–	(33,959)
Interim 2006 dividend paid	12	–	–	–	–	–	–	–	(67,920)	–	(67,920)	–	(67,920)
Proposed final 2006 dividend	12	–	–	–	–	–	–	–	(45,279)	45,279	–	–	–
Surplus on revaluation of buildings		–	–	–	2,516	–	–	–	–	–	2,516	1,409	3,925
Transfer from/(to) retained profits		–	–	–	–	–	10,731	–	(10,731)	–	–	–	–
At 31 December, 2006		56,599	281,846*	17,520*	10,477*	20,743*	83,277*	14,686*	1,378,135*	45,279	1,908,562	122,937	2,031,499

Consolidated Statement of Changes in Equity

	Notes	Issued capital HK$'000 (note 31)	Share premium account HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Available for sale investment revaluation reserve HK$'000	Contributed surplus HK$'000	Reserve funds HK$'000 (note 33(a))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 (note 12)	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the parent												
At 1 January, 2007		56,599	281,846	17,520	10,477	–	20,743	83,277	14,686	1,378,135	45,279	1,908,562	122,937	2,031,499
Exchange realignment		–	–	–	–	–	–	–	27,814	–	–	27,814	10,221	38,035
Total income and expense recognised directly in equity		–	–	–	–	–	–	–	27,814	–	–	27,814	10,221	38,035
Net profit for the year		–	–	–	–	–	–	–	–	224,353	–	224,353	83,991	308,344
Total income and expense for the year		–	–	–	–	–	–	–	27,814	224,353	–	252,167	94,212	346,379
Acquisition of a subsidiary	34	–	–	–	–	–	–	–	–	–	–	–	18,735	18,735
Acquisition of minority interests	18	–	–	(898)	–	–	–	–	–	–	–	(898)	(4,957)	(5,855)
Change in the fair value of available-for-sale investments	21	–	–	–	–	(9,979)	–	–	–	–	–	(9,979)	–	(9,979)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(31,232)	(31,232)
Final 2006 dividend declared	12	–	–	–	–	–	–	–	–	–	(45,279)	(45,279)	–	(45,279)
Interim 2007 dividend paid	12	–	–	–	–	–	–	–	–	(90,560)	–	(90,560)	–	(90,560)
Proposed final 2007 dividend	12	–	–	–	–	–	–	–	–	(45,279)	45,279	–	–	–
Surplus on revaluation of buildings		–	–	–	5,235	–	–	–	–	–	–	5,235	1,360	6,595
Transfer from/(to) retained profits		–	–	–	–	–	–	21,796	–	(21,796)	–	–	–	–
At 31 December, 2007		56,599	281,846*	16,622*	15,712*	(9,979)*	20,743*	105,073*	42,500*	1,444,853*	45,279	2,019,248	201,055	2,220,303

* These reserve accounts comprise the consolidated reserves of HK$1,917,370,000 (2006: HK$1,806,684,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**342,316**	205,073
Adjustments for:			
Finance costs	7	**2,575**	2,205
Share of profit of an associate		**(216)**	(704)
Acquisition of interest in an associate		**–**	(4,485)
Interest income	5	**(81,273)**	(80,648)
Dividend income	5	**(5,049)**	(5,712)
Depreciation	14	**27,855**	21,267
Recognition of prepaid land lease payments	15	**726**	300
Amortisation of other intangible assets	17	**1,106**	771
Write off of other intangible assets	17	**200**	–
Loss/(gain) on disposal of items of property, plant and equipment		**(41)**	3,481
Surplus on revaluation of buildings		**–**	(122)
		288,199	141,426
(Increase)/decrease in inventories		**(23,319)**	3,462
Increase in trade receivables		**(70,074)**	(10,255)
Decrease/(increase) in prepayments, deposits and other receivables		**2,809**	(8,965)
Decrease/(increase) in amounts due from related companies		**711**	(1,098)
Increase in trade payables		**7,356**	3,309
Increase in other payables and accruals		**58,297**	2,561
Increase in deferred government grants		**18,101**	7,475
Increase/(decrease) in amounts due to related companies		**3,636**	(264)
Cash generated from operations		**285,716**	137,651
Mainland China profits tax paid		**(33,233)**	(17,920)
Net cash inflow from operating activities		**252,483**	119,731
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**81,273**	80,648
Dividend received		**5,049**	5,712
Purchases of items of property, plant and equipment		**(73,448)**	(53,855)
Increase in prepaid land lease payments		**(234)**	(9,143)
Proceeds from disposal of items of property, plant and equipment		**1,954**	951
Additions to other intangible assets		**(10,246)**	(16,125)
Purchases of available-for sale investments		**(44,054)**	–
Acquisition of a subsidiary	34	**(1,771)**	–
Acquisition of minority interests		**(5,855)**	–
Increase in time deposits with original maturity of more than three months		**(95,464)**	–
Net cash (outflow)/inflow from investing activities		**(142,796)**	8,188

Consolidated Cash Flow Statement

	Notes	2007 HK$'000	2006 HK$'000
Net cash (outflow)/inflow from investing activities		**(142,796)**	8,188
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(2,575)**	(2,205)
Dividends paid		**(135,839)**	(101,879)
Dividends paid to minority shareholders		**(31,232)**	(45,376)
Capital injection by minority shareholders in subsidiary		**–**	3,112
New bank loans		**35,469**	–
Net cash outflow from financing activities		**(134,177)**	(146,348)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(24,490)**	(18,429)
Cash and cash equivalents at beginning of year		**1,684,162**	1,696,013
Effect of foreign exchange rate changes, net		**20,615**	6,578
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,680,287**	1,684,162
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, unrestricted	25	**265,107**	122,923
Time deposits with original maturity of less than three months when acquired	25	**1,415,180**	1,561,239
		1,680,287	1,684,162

Balance Sheet

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**6,116**	6,242
Investments in subsidiaries	18	**101,519**	101,519
Available-for-sale investments	21	**34,075**	–
Total non-current assets		**141,710**	107,761
CURRENT ASSETS			
Due from subsidiaries	18	**235,601**	165,154
Prepayments, deposits and other receivables	24	**6,761**	9,850
Cash and bank balances	25	**1,373,510**	1,501,072
Total current assets		**1,615,872**	1,676,076
CURRENT LIABILITIES			
Due to subsidiaries	18	**100,173**	56,621
Other payables and accruals	27	**5,869**	7,967
Total current liabilities		**106,042**	64,588
NET CURRENT ASSETS		**1,509,830**	1,611,488
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,651,540**	1,719,249
Net assets		**1,651,540**	1,719,249
EQUITY			
Issued capital	31	**56,599**	56,599
Reserves	33(b)	**1,549,662**	1,617,371
Proposed final dividend	12	**45,279**	45,279
Total equity		**1,651,540**	1,719,249

Mr. Zhang Baowen
Director

Mr. Tse Hsin
Director

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the Main Board on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings and equity investments which have been measured at fair value as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December, 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7: Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1: Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 39 to the financial statements.

(c) HK(IFRIC)-Int 8: Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued any equity instruments to its employees for any services provided, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9: Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(e) HK(IFRIC)-Int 10: Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January, 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	Operating Segments [1]
HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions [2]
HK(IFRIC)-Int 12	Service Concession Arrangements [4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [3]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [4]

[1] Effective for annual periods beginning on or after 1 January, 2009
[2] Effective for annual periods beginning on or after 1 March, 2007
[3] Effective for annual periods beginning on or after 1 July, 2008
[4] Effective for annual periods beginning on or after 1 January, 2008

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January, 2009.

HKAS 1 has been revised to enhance the usefulness of information presented in the financial statements. Entities will need to consider whether to present the statement of comprehensive income as a single statement or two statements. This may also impact the information disclosed in other announcements by the entity, such as press releases.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Group has no outstanding share options at 31 December, 2007. Hence, HK(IFRIC)-Int 11 has no financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interest in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4%-5%
Leasehold improvements	5%-20%
Plant and machinery	5%-9%
Motor vehicles	9%-18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognized in the income statement does not include any dividends on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, amounts due to related companies and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) 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;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (the "market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

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Share-based payment transactions (Continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the 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.

The employees of the Group's subsidiaries and jointly controlled entity which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries and jointly controlled entity are required to contribute 20-23% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

All other borrowing costs are recognised as expenses when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly controlled entity are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries and jointly-controlled entity are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries and jointly controlled entity which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries level. The Group considers that the deferred tax assets are recognised to the extent that it is probable that subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary differences. The carrying amount of deferred tax assets at 31 December, 2007 was HK$18,729,000 (2006: HK$4,244,000). More details are given in note 30.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December, 2007 was HK$44,322,000 (2006: HK$42,031,000). More details are given in note 16.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Assessment of useful lives of deferred development costs

In assessing the estimated useful lives of deferred development costs, the Group takes into account factors such as the expected life span of the underlying pharmaceutical products based on past experience or from a change in the market demand for the products. The estimation of the useful lives is based on the experience of management.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 30 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December, 2007, the best estimate of the carrying amount of capitalised development costs was HK$23,910,000 (2006: HK$16,125,000).

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

(a) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine products and chemical medicine products; and

(b) the investment segment is engaged in long term investment.

4. SEGMENT INFORMATION (Continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December, 2007 and 2006.

Year ended 31 December, 2007	Modernised Chinese medicines HK$'000	Investment HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:					
Sales to external customers	1,093,118	–	66,107	–	1,159,225
Dividend income	–	5,049	–	–	5,049
Total	1,093,118	5,049	66,107	–	1,164,274
Segment results	306,632	(15,596)	(8,581)	–	282,455
Interest and unallocated gains					98,367
Share of profit of an associate					216
Unallocated expenses					(36,147)
Finance costs					(2,575)
Profit before tax					342,316
Tax					(33,972)
Profit for the year					308,344
Assets and liabilities					
Segment assets	1,059,697	1,502,615	18,276	–	2,580,588
Other unallocated assets					15,076
Total assets					2,595,664
Segment liabilities	322,866	13,313	6,897	–	343,076
Other unallocated liabilities					32,285
Total liabilities					375,361
Other segment information:					
Depreciation and amortisation	25,190	3,769	728	–	29,687
Capital expenditure	79,232	1,636	3,060	–	83,928
Other non-cash expenses	1,216	–	–	–	1,216

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Year ended 31 December, 2006	Modernised Chinese medicines HK$'000	Investment HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:					
Sales to external customers	723,606	–	5,334	–	728,940
Dividend income	–	5,712	–	–	5,712
Total	723,606	5,712	5,334	–	734,652
Segment results	197,288	(47,782)	(3,164)	–	146,342
Interest and unallocated gains					91,486
Share of profit of an associate					704
Unallocated expenses					(31,254)
Finance costs					(2,205)
Profit before tax					205,073
Tax					(22,106)
Profit for the year					182,967
Assets and liabilities					
Segment assets	571,722	1,590,619	43,744	–	2,206,085
Interest in an associate	–	4,781	–	–	4,781
Other unallocated assets					4,244
Total assets					2,215,110
Segment liabilities	148,790	17,173	2,546	–	168,509
Other unallocated liabilities					15,102
Total liabilities					183,611
Other segment information:					
Depreciation and amortisation	20,057	1,486	795	–	22,338
Capital expenditure	45,551	5,319	28,253	–	79,123
Other non-cash expenses	100	–	–	–	100

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and dividend income from an unlisted investment.

An analysis of revenue, other income and gains is as follows:

	2007 HK$'000	2006 HK$'000
Revenue		
Sale of goods	1,159,225	728,940
Dividend income	5,049	5,712
	1,164,274	734,652
Other income		
Bank interest income	81,273	80,648
Government grants*	14,891	3,347
Sale of scrap materials	1,223	2,715
Others	939	4,581
	98,326	91,291
Gains		
Gain on disposal of items of property, plant and equipment	41	73
Revaluation surplus of property, plant and equipment	–	122
	41	195
Total other income and gains	98,367	91,486

* Various government grants have been received for setting up research activities in Mainland China. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold		205,764	138,788
Depreciation	14	27,855	21,267
Recognition of prepaid land lease payments	15	726	300
Amortisation of other intangible assets*	17	1,106	771
Write off of other intangible assets*	17	200	–
Research and development costs		49,988	27,183
Minimum lease payments under operating leases:			
Land and buildings		4,889	3,752
Auditors' remuneration		1,062	1,031
Employee benefits expense (including directors' remuneration (note 8)):			
Wages and salaries		174,451	123,120
Pension scheme contributions **		7,467	5,719
		181,918	128,839
Impairment of accounts receivable	23	1,094	208
Foreign exchange differences, net		(198)	(1,308)

Notes:

* The amortisation of patents and licences and deferred development costs for the year are included in "Cost of sales" and "Other operating expenses" respectively on the face of the consolidated income statement.

** During the year, certain of the subsidiaries in Mainland China were members of pension contribution schemes managed by the respective local governments. Contributions made during the year were based on 20%-23% (2006: 20%-23%) of the employees' salaries and were charged to the consolidated income statement as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December, 2007 (2006: 5%).

7. FINANCE COSTS

	Group 2007 HK$'000	Group 2006 HK$'000
Interest on bank and other borrowings wholly repayable with five years	**2,575**	2,205

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Fees	**394**	350
Other emoluments:		
Salaries, allowances and benefits in kind	**8,720**	8,287
Pension scheme contributions	**82**	96
Discretionary bonuses	**4,783**	1,330
	13,585	9,713
	13,979	10,063

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 HK$'000	2006 HK$'000
Mr. Lu Zhengfei	**150**	150
Mr. Li Dakui	**100**	100
Ms. Li Jun	**144**	100
	394	350

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007						
Executive directors:						
Mr. Tse Ping	–	4,200	2,800	–	12	7,012
Mr. Tao Huiqi	–	538	903	–	10	1,451
Mr. Wang Jinyu	–	25	–	–	1	26
Mr. He Huiyu	–	1,008	–	–	–	1,008
Ms. Cheng Cheung Ling	–	1,105	300	–	12	1,417
Ms. Zhao Yanping	–	562	–	–	13	575
Mr. Zhang Baowen	–	346	780	–	22	1,148
Mr. Tse Hsin	–	936	–	–	12	948
	–	8,720	4,783	–	82	13,585

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006						
Executive directors:						
Mr. Tse Ping	–	3,600	–	–	12	3,612
Mr. Tao Huiqi	–	569	450	–	10	1,029
Mr. Wang Jinyu	–	300	–	–	12	312
Mr. He Huiyu	–	1,008	–	–	–	1,008
Ms. Cheng Cheung Ling	–	1,040	–	–	12	1,052
Ms. Zhao Yanping	–	600	300	–	19	919
Mr. Zhang Baowen	–	260	580	–	19	859
Mr. Tse Hsin	–	910	–	–	12	922
	–	8,287	1,330	–	96	9,713
Non-executive director:						
Ms. Josephine Price	–	–	–	–	–	–
	–	8,287	1,330	–	96	9,713

Ms. Josephine Price has retired as a non-executive director on 5 June, 2006.

Mr. Wang Jinyu and Ms. Zhao Yanping have resigned as executive directors on 1 February, 2007 and 20 July, 2007, respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The Group's key management personnel comprise solely of the directors.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2006: five) directors, details of whose remuneration are set out in note 8 above.

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	2007 HK$'000	2006 HK$'000
Group:		
Current – Mainland China income tax	41,002	20,647
Deferred tax (note 30)	(7,030)	1,459
Total tax charge for the year	33,972	22,106

Pursuant to the Income Tax Law of Mainland China Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries qualify as "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% to 24% applies during the year.

The Group's principal operating subsidiaries and jointly-controlled entity are exempt from corporate income tax for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and are entitled to a 50% tax exemption from the full corporate income tax rate for the succeeding three years (the "Tax Concession").

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), one of the Group's principal operating subsidiaries, is subject to a corporate income tax rate of 15% in 2007 because it is located in the Lianyungang economic and development zone.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), another principal operating subsidiary of the Group, is entitled to the preferential corporate income tax rate of 15% as it is located in the Nanjing technology development area. NJCTT is entitled to the Tax Concession. NJCTT is entitled to full exemption from corporate income tax for the year ended 31 December, 2007 as it is in its second profit making year.

Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide"), a jointly-controlled entity of the Group, is also entitled to the Tax Concession. Beijing Tide relocated to Beijing economic and development zone in 2007 and thus it is subject to a corporate income tax rate of 15%. The Tax Concession expired on 31 December, 2004. As Beijing Tide qualifies as an "Foreign Invested Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Concession, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, Beijing Tide is subject to a corporate income tax rate of 10% in 2007.

10. TAX (Continued)

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March, 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Consequently, the Group's principal operating subsidiaries will be subject to a statutory corporate tax rate of 25% for the year ending 31 December, 2008. NJCTT will continue to enjoy the Tax Concession till the Tax Concession expired. Pursuant to the New Corporate Income Tax Law, the applicable tax rate of the Group's principal operating subsidiaries will be progressively increased to 25% over a five years period beginning from the year ending 31 December, 2008.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Profit before tax	**342,316**	205,073
Tax at the statutory tax rate of 33%	**112,964**	67,674
Less: preferential tax rate reduction	**(61,266)**	(36,913)
Income not subject to tax	**(14,760)**	(15,981)
Expenses not deductible for tax	**20,875**	4,284
Tax losses not recognised	**3,195**	7,950
Tax exemptions/deductions	**(30,897)**	(4,908)
Effect of changes in statutory tax rate	**3,861**	–
Tax charge at the Group's effective rate	**33,972**	22,106

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December, 2007 includes a profit of HK$78,026,000 (2006: HK$140,780,000 (note 33(b)) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2007	2006
	HK$'000	HK$'000
Interim – HK$0.04 (2006: HK$0.03) per ordinary share	**90,560**	67,920
Proposed final –HK$0.02 (2006: HK$0.02) per ordinary share	**45,279**	45,279
	135,839	113,199

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent for the year of HK$224,353,000 (2006: HK$141,172,000), and the number of 2,263,968,736 ordinary shares in issue during the year (2006: 2,263,968,736).

Diluted earnings per share amounts for the years ended 31 December, 2007 and 2006 have not been disclosed as no diluting events existed during these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2007							
At 1 January, 2007:							
Cost or valuation	97,670	7,313	121,947	22,407	38,532	36,921	324,790
Accumulated depreciation	–	(7,313)	(46,703)	(11,830)	(20,989)	–	(86,835)
Net carrying amount	97,670	–	75,244	10,577	17,543	36,921	237,955
At 1 January, 2007, net of accumulated depreciation	97,670	–	75,244	10,577	17,543	36,921	237,955
Additions	2,327	–	6,485	5,086	7,266	52,284	73,448
Depreciation provided during the year	(7,332)	–	(10,633)	(4,117)	(5,773)	–	(27,855)
Surplus on revaluation	10,009	–	–	–	–	–	10,009
Acquisition of a subsidiary (note 34)	22,007	–	9,355	640	918	533	33,453
Disposals	(167)	–	(989)	(242)	(515)	–	(1,913)
Transfers	34,176	–	7,630	535	483	(42,824)	–
Exchange realignment	6,375	–	5,612	634	1,124	558	14,303
At 31 December, 2007, net of accumulated depreciation	165,065	–	92,704	13,113	21,046	47,472	339,400
At 31 December, 2007:							
Cost or valuation	165,065	7,575	155,813	29,578	48,195	47,472	453,698
Accumulated depreciation	–	(7,575)	(63,109)	(16,465)	(27,149)	–	(114,298)
Net carrying amount	165,065	–	92,704	13,113	21,046	47,472	339,400
Analysis of cost or valuation:							
At cost	–	7,575	155,813	29,578	48,195	47,472	288,633
At valuation	165,065	–	–	–	–	–	165,065
	165,065	7,575	155,813	29,578	48,195	47,472	453,698

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2006							
At 1 January, 2006:							
Cost or valuation	84,502	11,005	108,459	17,372	31,760	14,738	267,836
Accumulated depreciation	–	(7,298)	(36,931)	(8,778)	(16,167)	–	(69,174)
Net carrying amount	84,502	3,707	71,528	8,594	15,593	14,738	198,662
At 1 January, 2006, net of accumulated depreciation	84,502	3,707	71,528	8,594	15,593	14,738	198,662
Additions	1,603	–	456	5,043	5,626	41,127	53,855
Depreciation provided during the year	(4,523)	(60)	(8,589)	(3,478)	(4,617)	–	(21,267)
Surplus on revaluation	4,816	–	–	–	–	–	4,816
Disposals	–	(3,653)	(181)	(338)	(260)	–	(4,432)
Transfers	8,708	–	9,491	531	764	(19,494)	–
Exchange realignment	2,564	6	2,539	225	437	550	6,321
At 31 December, 2006, net of accumulated depreciation	97,670	–	75,244	10,577	17,543	36,921	237,955
At 31 December, 2006:							
Cost or valuation	97,670	7,313	121,947	22,407	38,532	36,921	324,790
Accumulated depreciation	–	(7,313)	(46,703)	(11,830)	(20,989)	–	(86,835)
Net carrying amount	97,670	–	75,244	10,577	17,543	36,921	237,955
Analysis of cost or valuation:							
At cost	–	7,313	121,947	22,407	38,532	36,921	227,120
At valuation	97,670	–	–	–	–	–	97,670
	97,670	7,313	121,947	22,407	38,532	36,921	324,790

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Buildings HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2007					
At 1 January, 2007:					
Cost	–	6,981	2,310	1,395	10,686
Accumulated depreciation	–	(3,178)	(1,266)	–	(4,444)
Net carrying amount	–	3,803	1,044	1,395	6,242
At 1 January, 2007, net of accumulated depreciation	–	3,803	1,044	1,395	6,242
Additions	174	496	965	–	1,635
Depreciation provided during the year	(57)	(1,326)	(692)	–	(2,075)
Surplus on revaluation	83	–	–	–	83
Transfer	1,395	–	–	(1,395)	–
Exchange realignment	–	206	25	–	231
At 31 December, 2007, net of accumulated depreciation	1,595	3,179	1,342	–	6,116
At 31 December, 2007:					
Cost/valuation	1,595	7,361	3,376	–	12,332
Accumulated depreciation	–	(4,182)	(2,034)	–	(6,216)
Net carrying amount	1,595	3,179	1,342	–	6,116
Analysis of cost or valuation:					
At cost	–	7,361	3,376	–	10,737
At valuation	1,595	–	–	–	1,595
	1,595	7,361	3,376	–	12,332

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2006				
At 1 January, 2006:				
Cost	3,414	1,929	–	5,343
Accumulated depreciation	(2,055)	(883)	–	(2,938)
Net carrying amount	1,359	1,046	–	2,405
At 1 January, 2006, net of accumulated depreciation	1,359	1,046	–	2,405
Additions	3,541	366	1,395	5,302
Depreciation provided during the year	(1,106)	(380)	–	(1,486)
Exchange realignment	9	12	–	21
At 31 December, 2006, net of accumulated depreciation	3,803	1,044	1,395	6,242
At 31 December, 2006:				
Cost	6,981	2,310	1,395	10,686
Accumulated depreciation	(3,178)	(1,266)	–	(4,444)
Net carrying amount	3,803	1,044	1,395	6,242

The Group's buildings are all situated in Mainland China and are held under medium term leases.

The Group's buildings as at 31 December, 2007 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK$165,065,000 (2006: HK$97,670,000) based on their existing use. The revaluation resulted in a surplus of HK$10,009,000 (2006: HK$5,504,000) and no deficit (2006: HK$688,000). The Group has credited HK$5,235,000 (2006: a credit of HK$2,516,000) to the revaluation reserve in the current year. There was no charge to the income statement in the current year (2006: HK$122,000).

Had the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$134,160,000 (2006: HK$76,774,000).

As at 31 December, 2007, certain of the Group's buildings with a net book value of approximately HK$16,279,000 (2006: Nil) were pledged to secure bank borrowings granted to the Group (note 28).

15. PREPAID LAND LEASE PAYMENTS

	Group 2007 HK$'000	2006 HK$'000
Carrying amount at 1 January	**16,872**	7,692
Acquisition of a subsidiary (note 34)	**12,015**	–
Additions during the year	**234**	9,143
Recognised during the year	**(726)**	(300)
Exchange realignment	**1,761**	337
Carrying amount at 31 December	**30,156**	16,872
Current portion included in prepayments, deposits and other receivables	**(874)**	(331)
Non-current portion	**29,282**	16,541

The prepaid land lease payments for land use rights are held under medium term leases and the lands are situated in Mainland China.

As at 31 December, 2007, the Group's land use rights with net book value of approximately HK$11,812,000 has been pledged to secure the bank borrowings granted to the Group (note 28).

16. GOODWILL

Group

	HK$'000
31 December, 2007	
Cost and carrying amount at 1 January, 2007	**42,031**
Acquisition of a subsidiary (note 34)	**2,125**
Exchange realignment	**166**
Cost and carrying amount at 31 December, 2007	**44,322**

	HK$'000
31 December, 2006	
Cost and carrying amount at 1 January, 2006	41,948
Exchange realignment	83
Cost and carrying amount at 31 December, 2006	42,031

16. GOODWILL (Continued)

Impairment testing of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill of the Group is related to three different cash generating units, namely Beijing Tide, a jointly-controlled entity and subsidiaries of the Group including JCTT and Jiangsu Chia Tai Qingjiang Pharmaceutical Co. Ltd. ("Jiangsu Qingjiang"). Approximately 90% of the carrying amount of goodwill arose from the acquisition of equity interests in Beijing Tide in the previous years.

The recoverable amount of the goodwill attributable to the acquisition of equity interests in Beijing Tide is determined from a value in use calculation using cash flow forecasts based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to Beijing Tide. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2008 and extrapolates cash flows for the following five years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets.

Based on the above, the directors consider that there is no impairment of goodwill.

17. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December, 2007			
Cost:			
At 1 January, 2007	5,114	16,125	21,239
Additions	3,049	7,197	10,246
Written off during the year	–	(200)	(200)
Exchange realignment	523	1,166	1,689
At 31 December, 2007	8,686	24,288	32,974
Accumulated amortisation:			
At 1 January, 2007	1,896	–	1,896
Provided during the year	743	363	1,106
Exchange realignment	153	15	168
At 31 December, 2007	2,792	378	3,170
Net carrying amount	5,894	23,910	29,804

	Patents and licences HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December, 2006			
Cost:			
At 1 January, 2006	4,854	–	4,854
Additions	–	16,125	16,125
Exchange realignment	260	–	260
At 31 December, 2006	5,114	16,125	21,239
Accumulated amortisation:			
At 1 January, 2006	1,052	–	1,052
Provided during the year	771	–	771
Exchange realignment	73	–	73
At 31 December, 2006	1,896	–	1,896
Net carrying amount	3,218	16,125	19,343

18. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted shares, at cost	**101,519**	101,519
Due from subsidiaries	**235,601**	165,154
Due to subsidiaries	**(100,173)**	(56,621)
	236,947	210,052
Impairment during the year	**–**	–
	236,947	210,052

The amounts due from/(to) subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amount due from/(to) subsidiaries approximates to their fair values.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGC")	Mainland China	US$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US$2 Ordinary	100	–	Investment holding
Chia Tai Healthcare (Holding) Limited	British Virgin Islands/ Mainland China	US$10 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited ("CTLYG")	British Virgin Islands/ Mainland China	US$3 Ordinary	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK$100 Ordinary	–	51	Research and development of pharmaceutical products

18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (Continued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT")	Mainland China	RMB131,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited ("Magnificent")	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	60	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT")	Mainland China	US$5,050,000	–	55.6	Manufacture and sale of pharmaceutical products
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US$1 Ordinary	100	–	Investment holding
Talent Forward Limited	British Virgin Islands/ Mainland China	US$1 Ordinary	100	–	Investment holding
Lianyungang Chia Tai Tianqing Medicine Co., Ltd.* ("Tianqing")	Mainland China	US$970,000	–	60	Distribution of pharmaceutical products
Chia Tai Refined Chemical Industry Limited ("CTRC")	Hong Kong	HK$2 Ordinary	100	–	Investment holding
Evon Industries Ltd.	Hong Kong	HK$2 Ordinary	100	–	Property holding
Fine Enterprise Investment Limited ("Fine Enterprise")	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Sino Biopharmaceutical. (Tianjin) Co., Ltd.	Hong Kong	HK$1 Ordinary	100	–	Investment holding

18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (Continued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd.	Mainland China	US$5,000,000	–	60	Manufacture and sale of pharmaceutical products
Beijing Chia Tai Green Continent Medicines Co., Ltd.	Mainland China	RMB1,000,000	–	75	Manufacture and sale of pharmaceutical Products
Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd.**	Mainland China	RMB24,000,000	–	51	Manufacture and sale of pharmaceutical products

* Previously known as Lianyungang Chia Tai Tianyi Medicine Co., Ltd.

** Previously known as Jiangsu Qingjiang Pharmaceutical Co., Ltd.

On 30 August, 2006, the Company, through its wholly-owned subsidiary, CTRC, entered into the joint venture agreement with Shaanxi Coal Chemical Industry Limited, Shaanxi Province Investment Group Limited and Shaanxi New Coal Chemical Science and Technology Development Co., Ltd. for the establishment of the joint venture company, namely, Shaanxi Xinxing Energy Chemical Industry Limited. Details of the formation of the joint venture company are set out in the Company's press announcement dated 1 September, 2006. The Group's share of the committed capital contribution in the joint venture company amounted to HK$722,400,000 (note 36) as at 31 December, 2007 (the formation of the joint venture company is still pending the formal approval of the relevant government authorities).

On 15 February, 2007, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Fine Enterprise.

On 16 February, 2007, CTGC established a wholly-owned subsidiary, Beijing Chia Tai Green Continent Medicines Co., Ltd.

On 31 May, 2007, JCTT completed the acquisition of 40% equity interest in Tianqing from the minority interests. Details of the acquisition are set out in the Company's announcement dated 22 November, 2006. JCTT paid a consideration of HK$3,490,000 in cash.

On 22 June, 2007, Magnificent disposed of its 100% equity interests in Chia Tai Hualing Technology Limited ("Chia Tai Hualing") for a consideration of HK$99 to a company (which Mr. Tse Ping has equity interests in) which was equivalent to the carrying amount of Chia Tai Hualing's net assets as at 22 June, 2007.

On 1 July, 2007, Fine Enterprise, through the acquisition of equity interest from the existing equity holders and the increase of capital of Jiangsu Qingjiang, owned 51% equity interest in Jiangsu Qingjiang. Details are set out in the Company's announcement dated 10 May, 2007 (note 34).

18. INTERESTS IN SUBSIDIARIES (Continued)

On 31 August, 2007, CTLYG completed the acquisition of 4.6% equity interest in NJCTT from the minority interests for a consideration of HK$2,365,000 (equivalent to the share of net assets of NJCTT as at the date of acquisition). Details are set out in the Company's announcement dated 10 May, 2007.

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

The interest in a jointly-controlled entity, Beijing Tide is indirectly held by the Company, in which the Group holds 35% equity interests therein. Beijing Tide is registered in the PRC with a registered capital of RMB65,509,000. The Group's percentage of voting power and percentage of profit sharing is equivalent to its equity interests. The principal activities of Beijing Tide is the manufacture and sale of pharmaceutical products.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2007 **HK$'000**	2006 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**140,263**	87,890
Non-current assets	**55,768**	49,439
Current liabilities	**(25,037)**	(19,818)
Net assets	**170,994**	117,511
Share of the jointly-controlled entity's results:		
Turnover	**176,394**	113,919
Other revenue	**–**	1,733
Total revenue	**176,394**	115,652
Total expenses	**(77,930)**	(54,788)
Tax	**(11,485)**	(8,389)
Profit after tax	**86,979**	52,475

20. INTEREST IN AN ASSOCIATE

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**–**	4,781
Goodwill on acquisition	**–**	408
	–	5,189

Interest in an associate as at 31 December, 2006 represented the Group's 20% equity interest in Jiangsu Qingjiang. The Group's share of profit of an associate for the period from 1 January, 2007 to 30 June, 2007 was HK$216,000 (2006: HK$704,000). On 1 July, 2007, Jiangsu Qingjiang has become a subsidiary of the Group (note 34).

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments, at fair value:				
Hong Kong	**34,075**	–	**34,075**	–
	34,075	–	**34,075**	–
Unlisted equity investments, at cost	**29,820**	29,820	**–**	–
	63,895	29,820	**34,075**	–

During the year, the gross loss of the Group's available for sale investment recognized directly in equity amounted to HK$9,979,000 (2006: Nil).

The listed equity investments consist of investments in equity securities which were designated as available for sale financial assets and have no fixed maturity date or coupon rates.

The market value of the Group's listed equity investments at the date of approval of these financial statements was HK$22,645,000.

The unlisted equity investments comprised the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily made from natural herbal ingredients in Mainland China.

The fair values of listed equity investments are based on quoted market prices. The unlisted equity investments are stated at cost less any impairment losses, rather than at fair value. The directors considered that the fair value of unlisted equity investments cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such equity investments are stated at cost less any impairment losses.

22. INVENTORIES

	Group 2007 HK$'000	Group 2006 HK$'000
Raw materials	**21,969**	13,482
Work in progress	**25,713**	13,259
Finished goods	**22,207**	14,005
Spare parts and consumables	**236**	131
	70,125	40,877

23. TRADE RECEIVABLES

	Group 2007 HK$'000	Group 2006 HK$'000
Trade receivables	**207,585**	118,511
Impairment	**(7,834)**	(6,243)
	199,751	112,268

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period range from 60 days to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Current to 90 days	**161,477**	105,900
91 days to 180 days	**35,109**	4,367
Over 180 days	**3,165**	2,001
	199,751	112,268

23. TRADE RECEIVABLES (Continued)

The movements in provision for impairment of trade receivables are as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
At 1 January	**6,243**	5,823
Impairment losses recognised (note 6)	**1,094**	208
Amount written off as uncollectible	**–**	(10)
Exchange realignment	**497**	222
	7,834	6,243

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Neither past due nor impaired	**186,075**	104,660
Less than 30 days past due	**7,191**	4,625
Between 31 to 90 days past due	**4,584**	977
Between 91 to 180 days past due	**1,008**	544
Between 181 days to 365 days past due	**893**	1,462
	199,751	112,268

Receivables that were neither past due nor impaired relate to a large number of diversified 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, the directors of the Company are of the opinion that no provision for impairment 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 or other credit enhancements over these balances.

The carrying amount of the trade receivables approximate to their fair values due to their relatively short maturity term.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**6,970**	3,234	**476**	–
Other receivables	**17,735**	15,620	**6,285**	9,288
Prepaid expenses	**659**	1,303	**–**	562
Current portion of prepaid land lease payments	**874**	331	**–**	–
	26,238	20,488	**6,761**	9,850

The carrying amounts of the prepayments, other receivables and prepaid expenses approximate to their fair values due to their relatively short maturity term.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

25. CASH AND BANK BALANCES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances, unrestricted	**265,107**	122,923	**58,442**	10,997
Time deposits with original maturity of less than three months	**1,415,180**	1,561,239	**1,283,005**	1,490,075
Time deposits with original maturity of more than three months	**95,464**	–	**32,063**	–
Cash and bank balances	**1,775,751**	1,684,162	**1,373,510**	1,501,072

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$373,235,000 (2006: HK$159,223,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

26. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Current to 90 days	33,032	22,015
91 days to 180 days	2,288	1,033
Over 180 days	847	820
	36,167	23,868

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade payables approximate to their fair values due to their relatively short maturity term.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Advances from customers	4,907	1,594	–	–
Accrued payroll and bonus	57,495	31,509	2,147	5,644
Other payables	72,988	51,154	1,316	100
Accrued expenses	58,553	28,665	2,259	2,111
Housing fund	548	450	–	–
Staff welfare and bonus fund	15,204	12,961	8	7
Tax payable other than profit tax	17,913	9,916	139	105
	227,608	136,249	5,869	7,967

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of the other payables and accruals approximate to their fair values due to their relatively short maturity term.

28. INTEREST-BEARING BANK BORROWINGS

	Group					
	2007			2006		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans-secured	6.48%-7.29%	2008	15,604	–	–	–
Bank loans-unsecured	6.73%	2008	21,376	–	–	–
			36,980			–
Non-current						
Bank loans-unsecured	7.56%	2009	21,376	–	–	–
			58,356			–
Analysed into:						
Bank loans repayable:						
Within one year or on demand			36,980			–
In the second year			21,376			–
			58,356			–

The Group's secured bank borrowings are secured by the pledge of certain of the Group's land use rights and buildings, which have an aggregate carrying value as at 31 December, 2007 of HK$28,091,000 (2006: Nil).

The Group's bank and other borrowings are denominated in Renminbi.

The Group's bank borrowings (current) bear interest at fixed rates ranging from 6.48% to 7.29% per annum during the year (2006: Nil). The Group's bank borrowings (non-current) bear interest at a floating rate pegged to the PRC prime rate.

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values.

29. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented grants received during the year for projects which are expected to take place beyond 2008.

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

31 December, 2007

Deferred tax liabilities

Group

	Development costs HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January, 2007	2,056	3,173	5,229
Deferred tax charged to the income statement (note 10)	2,974	–	2,974
Acquisition of a subsidiary (note 34)	–	2,376	2,376
Deferred tax debited to equity during the year	–	3,414	3,414
Gross deferred tax liabilities at 31 December, 2007	5,030	8,963	13,993

Deferred tax assets

Group

	Other intangible assets HK$'000	Provision for other receivables HK$'000	Provision for trade receivables HK$'000	Accruals HK$'000	Total HK$'000
At 1 January, 2007	–	119	783	3,342	4,244
Acquisition of a subsidiary (note 34)	–	35	74	719	828
Deferred tax credited to the income statement during the year (note 10)	891	14	511	8,588	10,004
Gross deferred tax assets at 31 December, 2007	891	168	1,368	12,649	15,076

30. DEFERRED TAX (Continued)

31 December, 2006

Deferred tax liabilities

Group

	Development costs HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January, 2006	–	2,404	2,404
Deferred tax charged to the income statement during the year (note 10)	2,056	–	2,056
Deferred tax debited to equity during the year	–	769	769
Gross deferred tax liabilities at 31 December, 2006	2,056	3,173	5,229

Deferred tax assets

Group

	Provision for other receivables HK$'000	Provision for trade receivables HK$'000	Accruals HK$'000	Total HK$'000
At 1 January, 2006	99	735	2,813	3,647
Deferred tax credited to the income statement during the year (note 10)	20	48	529	597
Gross deferred tax assets at 31 December, 2006	119	783	3,342	4,244

The Group has no tax losses arising in Hong Kong (2006: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

31. SHARE CAPITAL

Shares

	2007 HK$'000	2006 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.025 each (2006: 4,000,000,000 ordinary shares of HK$0.025 each)	**100,000**	100,000
Issued and fully paid:		
2,263,968,736 ordinary shares of HK$0.025 each (2006: 2,263,968,736 ordinary shares of HK$0.025 each)	**56,599**	56,599

32. SHARE OPTION SCHEMES

(a) The Existing Scheme

The Company operates a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September, 2000. On 26 April, 2002, the Existing Scheme was terminated and replaced by a new share option scheme, as detailed below under the heading "The New Scheme".

All share options granted by the Company were fully exercised in 2005. No further share options were granted under the Existing Scheme since 2005.

(b) The New Scheme

Following the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October, 2001, no share options may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new share option scheme (the "New Scheme") was adopted by the Company on 26 April, 2002 and at the same time the Existing Scheme was terminated. The New Scheme remains in force for ten years commencing from 26 April, 2002. On approval by the Stock Exchange for listing of the Company's shares on the main board, the Company adopted a proposed share option scheme (the "Proposed Scheme") and terminated the New Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 24 November, 2003. No share options were granted under the New Scheme since 26 April, 2002.

32. SHARE OPTION SCHEMES (Continued)

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme")

The Proposed Scheme (hereafter to be known as the "2003 Scheme") became effective on 8 December, 2003 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2003 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the 2003 Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the 2003 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding option, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2003 Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2003 Scheme at any time during a period to be determined on the date of offer of grant of share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the 2003 Scheme for the holding of a share option before it can be exercised.

The exercise price of the Shares under the 2003 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

32. SHARE OPTION SCHEMES (Continued)

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme") (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2003 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued shares of HK$0.10 each into four shares of HK$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2003 Scheme accordingly.

No share options were granted under the 2003 Scheme since 8 December, 2003.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 50 to 51 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September, 2000, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, enterprise expansion fund and staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to staff welfare and bonus fund is based on Nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of Mainland China joint ventures.

33. RESERVES (Continued)

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January, 2006		281,846	60,464	–	–	1,247,480	1,589,790
Profit for the year	11	–	–	–	–	140,780	140,780
Interim 2006 dividend	12	–	–	–	–	(67,920)	(67,920)
Proposed final 2006 dividend	12					(45,279)	(45,279)
At 31 December, 2006		281,846	60,464	–	–	1,275,061	1,617,371
Balance at 1 January, 2007		**281,846**	**60,464**	**–**	**–**	**1,275,061**	**1,617,371**
Profit for the year	11	**–**	**–**	**–**	**–**	**78,026**	**78,026**
Surplus on revaluation of buildings		**–**	**–**	**83**	**–**	**–**	**83**
Change in the fair value of available-for-sale investment revaluation		**–**	**–**	**–**	**(9,979)**	**–**	**(9,979)**
Interim 2007 dividend	12	**–**	**–**	**–**	**–**	**(90,560)**	**(90,560)**
Proposed final 2007 dividend	12	**–**	**–**	**–**	**–**	**(45,279)**	**(45,279)**
At 31 December, 2007		**281,846**	**60,464**	**83**	**(9,979)**	**1,217,248**	**1,549,662**

34. BUSINESS COMBINATION

Acquisition of a subsidiary

On 1 July, 2007, through the acquisition of equity interests from the existing equity holders and the increase of capital of Jiangsu Qingjiang, the Group owned 51% equity interests in Jiangsu Qingjiang, which is principally engaged in the manufacture and sale of raw drug. The consideration for the aforesaid transactions was in the form of cash, with RMB15,900,000 (equivalent to HK$16,219,000) (excluding the amount of RMB4,500,000 paid to CT Green Continent) paid in June, 2007.

The fair values of the identifiable assets and liabilities of Jiangsu Qingjiang as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Property, plant and equipment	14	33,453	31,922
Prepaid land lease payments	15	12,015	4,042
Deferred tax assets	30	828	828
Cash and bank balances		14,448	14,448
Inventories		5,929	5,929
Trade receivables		17,409	17,409
Prepayments, deposits and other receivables		8,016	8,016
Due from related companies		539	539
Trade payables		(4,943)	(4,943)
Other payables and accruals		(15,037)	(15,037)
Interest bearing bank and other borrowings		(22,887)	(22,887)
Amount due to related company (non-current)		(8,510)	(8,510)
Tax payables		(650)	(650)
Deferred tax liabilities	30	(2,376)	–
		38,234	31,106
Attributable to:			
The Group		19,499	
Minority interests		18,735	
		38,234	
The Group's share of net assets		19,499	
Goodwill on acquisition	16	2,125	
		21,624	
Satisfied by:			
Carrying value of interest in an associate	20	5,405	
Satisfied by cash		16,219	
		21,624	

34. BUSINESS COMBINATION (Continued)

Acquisition of a subsidiary (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(16,219)
Cash and bank balances acquired	14,448
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(1,771)

35. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and for land use rights are for terms ranging from one to fifty years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,516**	2,791	**1,222**	780
In the second to fifth years, inclusive	**4,972**	3,534	**–**	325
After five years	**23,027**	22,057	**–**	–
	30,515	28,382	**1,222**	1,105

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	**2,189**	413
– Capital contributions in respect of a joint venture company (note 18)	**722,400**	722,400
– Proposed investments (note 37(b)(i))	**56,127**	–
	780,716	722,813
Authorised, but not contracted for:		
– Plant and machinery	**5,465**	2,945

In addition, the Company's share of the jointly-controlled entity's capital commitments, which are not included in the above, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	**1,666**	1,052

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the years:

	Group	
	2007	2006
	HK$'000	HK$'000
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary (note (a))	**2,802**	3,313
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note (a))	**1,410**	–
Service revenue from:		
– a company indirectly owned by a director (note (b))	**–**	234
Operating lease rentals payable to:		
– a Chinese joint venture partner of a subsidiary (note (c))	**611**	580
– a company beneficially owned by a director (note (c))	**780**	780
– a company beneficially owned by a director (note (c))	**770**	–

Notes:

(a) Purchases of raw materials were conducted with reference to the market prices.

(b) Service fees were charged with reference to the market prices.

(c) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties

(i) On 9 November, 2007, JCTT entered into the new joint venture contract, new articles of association and capital increase agreement with Ace Elite Investments Limited ("Ace Elite"), Jiangsu State Agribusiness Group Corporation Limited ("Jiangsu Agribusiness") and Da Feng Hang Chang Consultation Centre ("Da Feng Hang Chang") to invest in a company, Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai"). Pursuant to the agreements, JCTT will contribute a total of RMB48,404,000 (approximately HK$49,437,000), out of which the Renminbi equivalent amount of US$4,773,500 (approximately HK$37,233,000) would be contributed to the registered capital of Jiangsu Fenghai and the remaining would be contributed to the capital reserve of Jiangsu Fenghai in cash within 30 working days after the business licence of Jiangsu Fenghai has been obtained from the relevant PRC approval authorities. Details of the agreements are set out in the Company's announcement dated 9 November, 2007.

On 9 November, 2007, JCTT entered into the new joint venture contract, new articles of association and capital increase agreement with Ace Elite, Jiangsu Agribusiness and Da Feng Hang Chang to invest in a company, Yancheng Suhai Pharmaceutical Co., Ltd. ("Yancheng Suhai"). Pursuant to the agreements, JCTT will contribute RMB4,731,900 (approximately HK$4,833,000) to the registered capital of Yancheng Suhai and RMB1,818,100 (approximately HK$1,857,000) to the capital reserve of Yancheng Suhai in cash within 30 working days after the business licence of Yancheng Suhai has been obtained from the relevant PRC approval authorities. Details of the agreements are set out in the Company's announcement dated 9 November, 2007.

The investors included Jiangsu Agribusiness which holds a 33.5% equity interests in JCTT. JCTT is 60% owned by the Group. The above transactions constitute connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The above transactions have not been completed as at 31 December, 2007 and have been subsequently completed in January, 2008.

(ii) On 18 September, 2006, JCTT entered into a master supply agreement to supply to Tianqing anti-bacterial and anti-inflammatory medicines and hepatitis and oncology medicines from 18 September, 2006 to 31 December, 2007 (the "JCTT Master Supply Agreement"). The terms of the JCTT Master Supply Agreement is to be determined by reference to the prevailing market price and the demand of anti-bacterial and anti-inflammatory medicines and hepatitis and oncology medicines in Mainland China and no less favourable to Tianqing than those available to Tianqing from independent third parties. The JCTT Master Supply Agreement constituted a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the JCTT Master Supply Agreement are set out in the Company's press announcement dated 18 September, 2006. The sale of goods by JCTT to Tianqing for the year amounted to HK$5,995,000 (2006: HK$1,862,000), and has been eliminated on consolidation.

(iii) On 18 September, 2006, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") entered into a master supply agreement to supply to Tianqing cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines from 18 September, 2007 to 31 December, 2007 (the "NJCTT Master Supply Agreement"). The terms of the NJCTT Master Supply Agreement is to be determined by reference to the prevailing market price and demand of cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines in Mainland China and no less favourable to Tianqing than those available to Tianqing from independent third parties. The NJCTT Master Supply Agreement constituted a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the NJCTT Master Supply Agreement are set out in the Company's press announcement dated 18 September, 2006. The sale of goods by NJCTT to Tianqing for the year amounted to HK$6,169,000 (2006: HK$2,067,000), and has been eliminated on consolidation.

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

(iv) On 18 September, 2006, Jiangsu Fenghai entered into a master supply agreement to supply to Tianqing anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines from 18 September, 2006 to 31 December, 2007 (the "Jiangsu Fenghai Master Supply Agreement"). The terms of the Jiangsu Fenghai Master Supply Agreement is to be determined by reference to the prevailing market price and demand of anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines in Mainland China and no less favourable to Tianqing than those available to Tianqing from independent third parties. The Jiangsu Fenghai Master Supply Agreement constituted a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai Master Supply Agreement are set out in the Company's press announcement dated 18 September, 2006. The transactions arising from the Jiangsu Fenghai Master Supply Agreement in 2007 amounted to HK$1,410,000 (2006: Nil).

(v) On 18 September, 2006, Jiangsu Qingjiang entered into a master supply agreement to supply to Tianqing arthritis medicines and cardio-cerebral medicines from 18 September, 2006 to 31 December, 2007 (the "Qingjiang Master Supply Agreement"). The terms of the Qingjiang Master Supply Agreement is to be determined by reference to the prevailing market price and demand of arthritis medicines and cardio-cerebral medicines in Mainland China and no less favourable to Tianqing than those available to Tianqing from independent third parties. The Qingjiang Master Supply Agreement constituted a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Qingjiang Master Supply Agreement are set out in the Company's press announcement dated 18 September, 2006. There were no transactions arising from the Qingjiang Master Supply Agreement in 2007 (2006: Nil).

(vi) On 23 December, 2005, CTGC entered into an agreement with Xian C. P. Pharmaceutical Co., Ltd. ("CT Xian") for CTGC to provide technology development services for certain pharmaceutical products for a term of three years from 1 January, 2006 to 31 December, 2008 to CT Xian (the "CT Xian Technology Services Agreement"). The terms of the technology development services are to be determined by reference to the prevailing market prices and no more favourable to CT Xian than those offered to independent third parties. CT Xian is a sino-foreign equity joint venture established in the Mainland China which is 60% (indirectly) owned by Mr. Tse Ping, chairman of the Company, and is principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine. CT Xian is a connected person as defined in Chapter 14A of the Listing Rules. Details of the CT Xian Technology Services Agreement are set out in the Company's press announcement dated 4 January, 2006. There are no transactions arising from the CT Xian Technology Services Agreement in 2007 (2006: Nil).

(vii) On 23 December, 2005, CTGC entered into an agreement with Jiangsu Fenghai for CTGC to provide technology development services for certain pharmaceutical products for a term of three years from 1 January, 2006 to 31 December, 2008 to Jiangsu Fenghai (the "Jiangsu Fenghai Technology Services Agreement"). The terms of the technolodevelopment services are to be determined by reference to the prevailing market prices and no more favourable to Jiangsu Fenghai than those offered to independent third parties. Jiangsu Fenghai is 51% owned by a company wholly-owned by Mr. Tse Ping, chairman of the Company, and is principally engaged in the production and sale of pharmaceutical raw materials and products. Jiangsu Fenghai is a connected person as defined in Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai Technology Services Agreement are set out in the Company's press announcement dated 4 January, 2006. There were no transactions arising from the Jiangsu Fenghai Technology Services Agreement in 2007 (2006: Nil).

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

(viii) On 23 December, 2005, JCTT and Jiangsu Agribusiness entered into a master purchase agreement for JCTT's purchase of coal from Jiangsu Agribusiness for a term of three years from 1 January, 2006 to 31 December, 2008 (the "Master Purchase Agreement"). The terms of the Master Purchase Agreement are to be determined by reference to the prevailing market price of coal in Mainland China, the prevailing market demand and the quotations obtained from various potential suppliers, and no less favourable to JCTT than those available from independent suppliers. Jiangsu Agribusiness is a connected person and the Master Purchase Agreement constituted a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Master Purchase Agreement are set out in the Company's press announcement dated 4 January, 2006. The purchase of raw materials from Jiangsu Agribusiness for the year amounted to HK$2,802,000 (2006: HK$3,313,000), and has been disclosed in note 37(a) under "Purchases of raw materials from a Chinese joint venture partner of a subsidiary".

(c) Outstanding balances with related parties

(i) As disclosed in the consolidated balance sheet, the Group had trade and other payables (current) to its Chinese joint venture partners of HK$4,553,000 (2006: HK$917,000) and trade receivables from its Chinese joint venture partners of HK$2,020,000 (2006: HK$2,192,000). Trade and other payables and receivables are unsecured, interest-free and on normal trade terms for repayment.

(ii) The Group's amount due to a related company (non-current) represents advances from its Chinese joint venture partner. This amount was unsecured. This amount bears interest at a rate of 7.02% per annum (till 20 June, 2008) and the interest rate will be renegotiated from 21 June, 2008 onwards.

The carrying values of the amounts due from/to related companies approximate to their fair values.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

Group

	Loans and receivables		Available-for-sale financial assets	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments	**–**	–	**63,895**	29,820
Trade receivables	**199,751**	112,268	**–**	–
Financial assets included in prepayments, deposits and other receivables	**26,238**	20,488	**–**	–
Due from related companies	**2,020**	2,192	**–**	–
Cash and bank balances	**1,775,751**	1,684,162	**–**	–
	2,003,760	1,819,110	**63,895**	29,820

Company

	Loans and receivables		Available-for-sale financial assets	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments	**–**	–	**34,075**	–
Financial assets included in prepayments, deposits and other receivables	**6,761**	9,850	**–**	–
Due from subsidiaries	**235,601**	165,154	**–**	–
Cash and bank balances	**1,373,510**	1,501,072	**–**	–
	1,615,872	1,676,076	**34,075**	–

Financial liabilities

Financial liabilities at amortised cost

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**36,167**	23,868	**–**	–
Financial liabilities included in accruals and other payables	**227,608**	136,249	**5,869**	7,967
Interest-bearing bank and other borrowings	**58,356**	–	**–**	–
Due to related companies	**13,394**	917	**–**	–
Due to subsidiaries	**–**	–	**100,173**	56,621
	335,525	161,034	**106,042**	64,588

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments (such as derivatives transactions including swaps, forward contracts) shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's non-current bank and other borrowings with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
2007			
Renminbi-denominated bank and other borrowings	5	(17)	(17)
Renminbi-denominated bank and other borrowings	(5)	17	17

The Group does not have non-current bank and other borrowings as at 31 December, 2006.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. In Mainland China, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of the current account items (including payment of dividend and profit to the foreign joint venture partner).

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Hong Kong dollar exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in equity HK$'000
2007		
If Hong Kong dollar weakens against Renminbi	**5**	**36,136**
If Hong Kong dollar strengthens against Renminbi	**(5)**	**(36,136)**
2006		
If Hong Kong dollar weakens against Renminbi	5	22,644
If Hong Kong dollar strengthens against Renminbi	(5)	(22,644)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's liquidity remains strong as at balance sheet date. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group is not exposed to liquidity risk.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Group

2007

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	–	–	36,980	21,376	58,356
Trade payables	6,995	26,545	2,627	–	36,167
Accruals and other payables	205,680	20,165	1,763	–	227,608
Due to related companies	4,194	359	–	8,841	13,394
	216,869	47,069	41,370	30,217	335,525

2006

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Trade payables	6,772	15,870	1,226	23,868
Accruals and other payables	–	133,312	2,937	136,249
Due to related companies	917	–	–	917
	7,689	149,182	4,163	161,034

Company

	2007 On demand HK$'000	2007 Total HK$'000	2006 On demand HK$'000	2006 Total HK$'000
Other payables and accruals	5,869	5,869	7,967	7,967
Due to subsidiaries	100,173	100,173	56,621	56,621
	106,042	106,042	64,588	64,588

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 21) as at 31 December, 2007. The Group's listed investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the balance sheet date.

The following table demonstrates the sensitivity to every 1% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

2007	Carrying amount of equity investments HK$'000	Increase/ (decrease) in equity HK$'000
Investments listed in Hong Kong – Available-for-sale	**34,075**	**341/(341)**

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value. The Group funds its operations principally via its capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during the years ended 31 December, 2007 and 31 December, 2006.

40. POST BALANCE SHEET EVENTS

(a) On 2 January, 2008, JCTT, a 60% indirectly-owned subsidiary of the Group entered into an agreement with Jiangsu Agribusiness, which has a 33.5% equity interests in JCTT, to acquire the land use right for certain property for a consideration of RMB39,690,000 (approximately HK$41,837,000). Details are set out in the Company's announcement dated 2 January, 2008.

(b) Subsequent to the balance sheet date, the directors of the Company proposed a final dividend of HK$0.02 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 12 and 33).

(c) Subsequent to the balance sheet date, JCTT has made a press announcement in the PRC to give notice that it has completed six months' of guidance by a securities firm in the PRC as required by the relevant PRC rules and regulations in preparation for the proposed spin-off and listing of JCTT on the Shenzhen Stock Exchange. Details are set out in the Company's announcement dated 20 March, 2008.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March, 2008.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting of Sino Biopharmaceutical Limited (the "Company") will be held at 10:00 a.m. on Tuesday, 24 June, 2008 at 7th Floor, Board Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the following purposes:

1. To receive, consider and adopt the audited financial statements of the Company and the reports of the Directors and the independent auditors thereon for the year ended 31 December, 2007;

2. To approve the payment of a final dividend for the year ended 31 December, 2007;

3. To re-elect Directors and to authorize the Board of Directors to fix the remuneration of the Directors;

4. To re-appoint the auditors and to authorize the Board of Directors to fix the remuneration of the auditors of the Company; and

5. As special business, to consider, and, if thought fit, pass with or without amendments the following Resolutions as Ordinary Resolutions:

ORDINARY RESOLUTION

(A) "**THAT**:

(1) subject to paragraph (3) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and other securities, including warrants to subscribe for shares of the Company, which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;

(2) the approval in paragraph (1) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements, options and other securities, including warrants to subscribe for shares of the Company, which would or might require the Company to allot, issue or deal with additional shares in the capital of the Company at any time during or after the end of the Relevant Period;

(3) the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), issued or otherwise dealt with by the Directors pursuant to the approval in paragraph (1) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription or conversion rights attaching to any securities which may be issued by the Company from time to time or the exercise of the options granted under the share option scheme of the Company or any issue of shares in lieu of the whole or part of a dividend on shares, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(4) for the purpose of this Resolution:

"Relevant Period" means the period from the time of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this Resolution.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares whose names on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

(B) "**THAT**:

(1) subject to paragraph (2) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(2) the aggregate nominal amount of the shares of the Company authorized to be purchased by the Company pursuant to the approval in paragraph (1) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(3) for the purpose of this Resolution:

"Relevant Period" means the period from the time of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; and

(iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this Resolution."

(C) "**THAT**, conditional upon the Resolutions set out as Resolutions 5(A) and 5(B) of the notice convening this Meeting being duly passed, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares in the capital of the Company pursuant to the Resolution set out as Resolution 5(A) of the notice convening this Meeting be and is hereby extended by the addition to such mandate of an amount representing the aggregate nominal amount of the shares of the Company purchased by the Company under the authority granted pursuant to the Resolution set out as Resolution 5(B) of the notice convening this Meeting, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of the said Resolution."

By Order of the Board
Leung Sau Fung, Fanny
Company Secretary

Hong Kong, 9 April, 2008

As at the date of this notice, the Board comprises six executive Directors, namely Mr. Tse Ping, Mr. Tao Huiqi, Mr. He Huiyu, Ms. Cheng Cheung Ling, Mr. Zhang Baowen and Mr. Tse Hsin and three independent non-executive Directors, namely Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

3. The register of members of the Company will be closed from Friday, 20 June, 2008 to Tuesday, 24 June, 2008 (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 19 June, 2008 for registration.

4. Pursuant to Article 66 of the Articles of Association of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is required under the rules of the Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:–

   (a) by the chairman of such meeting; or

   (b) by at least three shareholders of the Company (the "Shareholders") present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

   (c) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

   (d) by a Shareholder or Shareholders present in person or in case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

   (e) by any of the Directors who individually or collectively (including the chairman of the relevant meeting of the Company) hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting of the Company, and if on a show of hands such meeting votes in the opposite manner to that instructed in those proxies, such Directors shall have the right to demand a poll. If a poll is required under these circumstances, the chairman of the meeting should disclose to the meeting of the Company the total number of votes represented by all proxies held by Directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

5. A circular containing further details regarding the Resolutions set out as Resolutions 5(A), (B) and (C) will be sent to the Shareholders together with the annual report of the Company for the year ended 31 December, 2007.