Annual Report 2008

SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 1177)

Contents

Corporate Profile

Sino Biopharmaceutical Limited (the "Company"), together with its subsidiaries 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 to olefin 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 of 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:

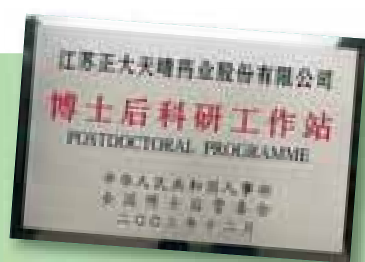
Cardio-cerebral medicines:	Kaishi (Alprostadil) injections, Spring (Purarin) injections
Hepatitis medicines:	Ganlixin (Diammonium Glycyrrhizinate) injections and capsules, Mingzheng (Adefovir Dipivoxil) capsules, Tianqingfuxin (Marine) injections and capsules
Oncology medicines:	Tianqingyitai (Zolebronate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

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 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 jointly-controlled entity, Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide") has received the GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in February 2008. Thus, the Japanese pharmaceutical enterprises can assign the manufacturing of aseptic pharmaceutical products (products that are under research and products already launched to the domestic market within Japan) to Beijing Tide for export to Japan.

The Group's several principal subsidiaries: Jiangsu Chia Tai – Tianqing Pharmaceutical Co. Ltd. ("JCTT"), Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CT Green Continent"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") and Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. ("Qingdao Haier") and jointly-controlled entity, Beijing Tide have been designated "High and New Technology Enterprises". Beijing Tide also received the "Key New and High Technology Enterprise" certificate from the High–tech Industry Development Center of the Ministry of Science and Technology of the PRC in June, 2006.

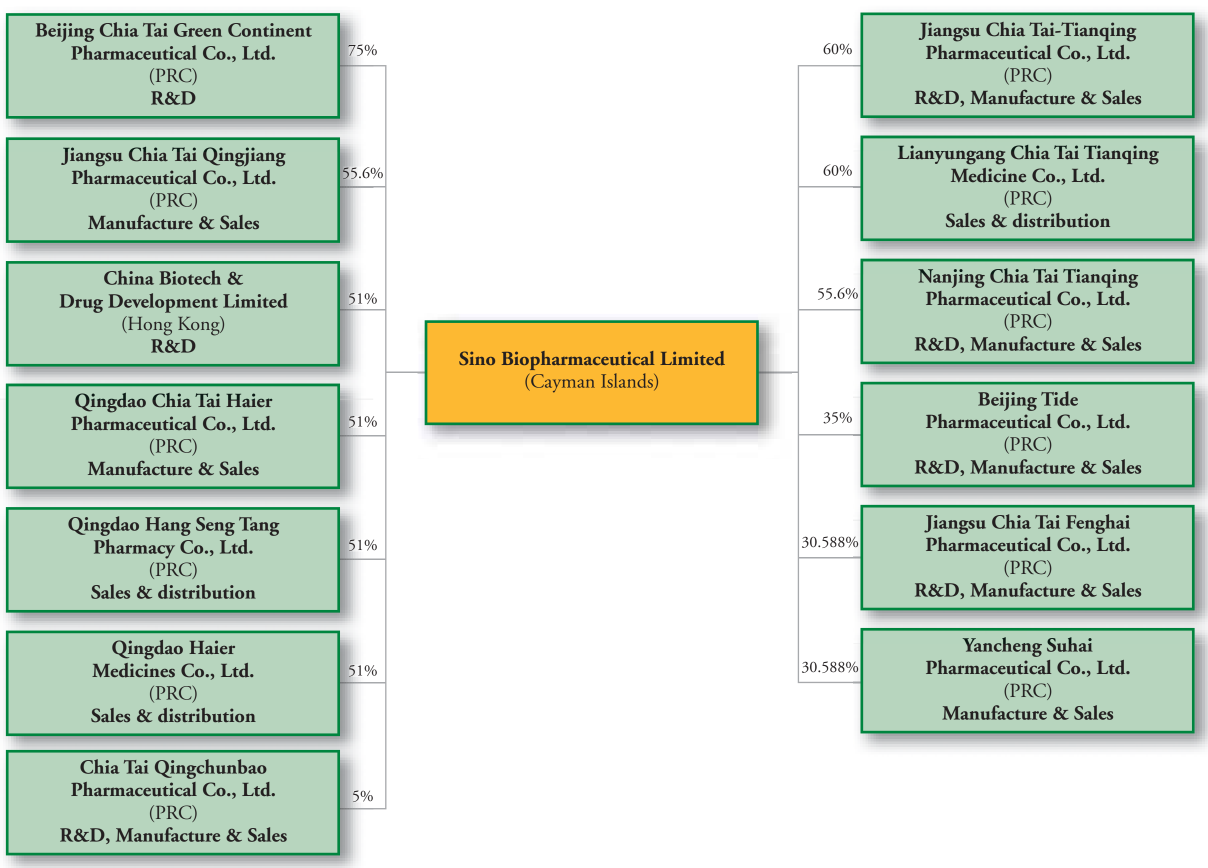
Named by the Ministry of Personnel of the PRC as a "Postdoctoral Research and Development Institute", the research center of JCTT is also the only "New Hepatitis Medicine Research Center" in the country.

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

Stock Code: 1177

GROUP STRUCTURE

Fig.1.1



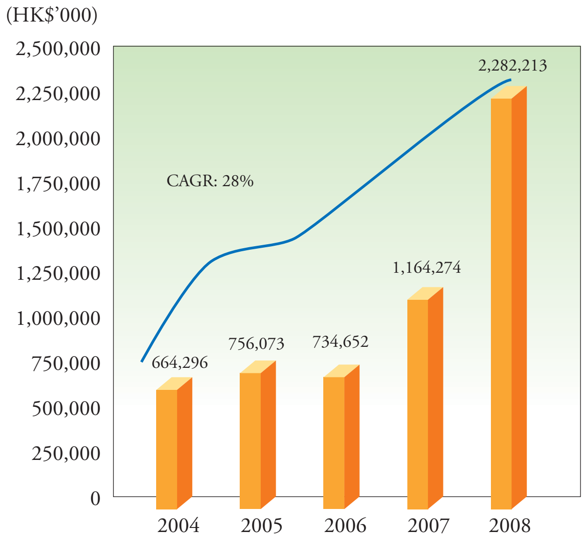
Financial Summary

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.

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
CONTINUING OPERATIONS					
TURNOVER	**2,282,213**	1,164,274	734,652	756,073	664,296
Cost of sales	**(473,245)**	(205,764)	(138,788)	(139,418)	(133,163)
Gross profit	**1,808,968**	958,510	595,864	616,655	531,133
Other income and gains	**95,006**	98,367	91,486	28,599	7,063
Selling and distribution costs	**(876,591)**	(503,751)	(327,720)	(310,609)	(253,390)
Administrative expenses	**(305,493)**	(154,708)	(121,802)	(110,866)	(101,885)
Other expenses	**(112,492)**	(53,743)	(31,254)	(42,224)	(33,382)
Finance costs	**(9,135)**	(2,575)	(2,205)	(2,729)	(1,050)
Share of profit of an associate	**–**	216	704	–	–
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**600,263**	342,316	205,073	178,826	148,489
Fair value adjustment	**–**	–	–	(66,315)	–
PROFIT BEFORE TAX	**600,263**	342,316	205,073	112,511	148,489
Tax	**(118,260)**	(33,972)	(22,106)	(18,311)	(15,407)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**482,003**	308,344	182,967	94,200	133,082
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	–	152,213	152,129
Gain on disposal of subsidiaries	**–**	–	–	1,406,191	–
Total profit for the year from a discontinued operation	**–**	–	–	1,558,404	152,129
PROFIT FOR THE YEAR	**482,003**	308,344	182,967	1,652,604	285,211
Attributable to:					
Equity holders of the parent	**297,615**	224,353	141,172	1,532,929	168,485
Minority interests	**184,388**	83,991	41,795	119,675	116,726
	482,003	308,344	182,967	1,652,604	285,211
TOTAL ASSETS	**3,267,380**	2,582,099	2,215,110	2,140,222	950,535
TOTAL LIABILITIES (exclude convertible bonds)	**(615,446)**	(361,796)	(183,611)	(164,978)	(239,845)
CONVERTIBLE BONDS	**–**	–	–	–	(42,900)
NET ASSETS	**2,651,934**	2,220,303	2,031,499	1,975,244	667,790
MINORITY INTERESTS	**(423,006)**	(201,055)	(122,937)	(121,997)	(211,716)

SALES GROWTH OF CONTINUING OPERATIONS

Fig.1.2



GROWTH OF PROFIT FROM CONTINUING OPERATIONS

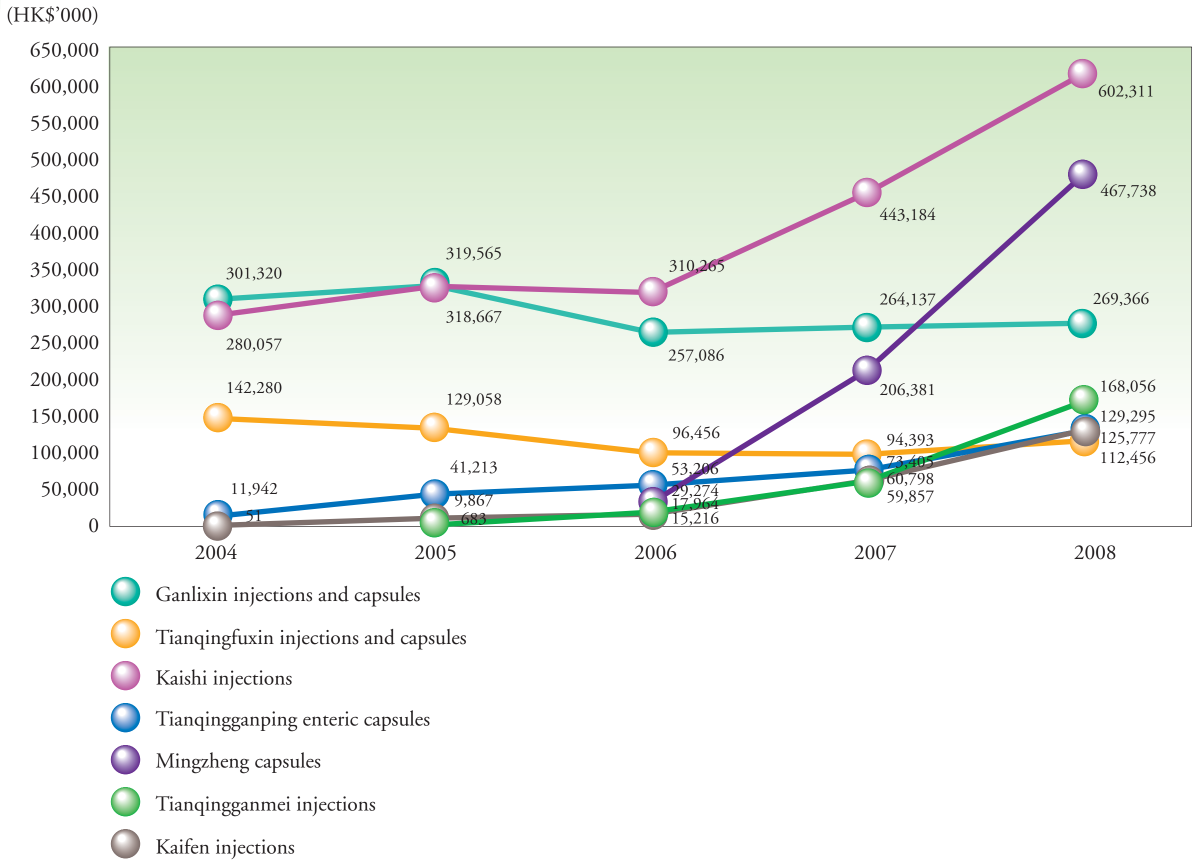
Fig.1.3

* Profit before fair value adjustment for derivative financial instrument

Financial Summary

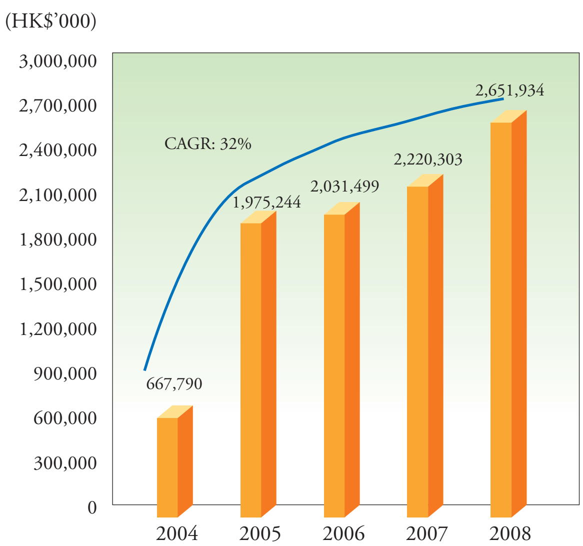
SALES GROWTH OF BLOCKBUSTER PRODUCTS

Fig.1.4



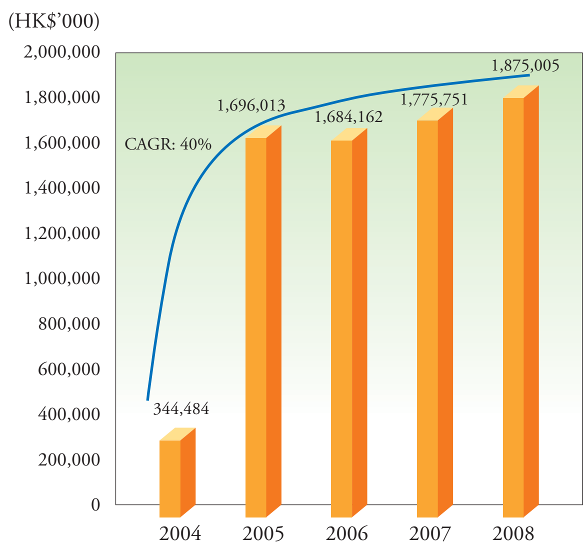
NET ASSET VALUE

Fig.1.5



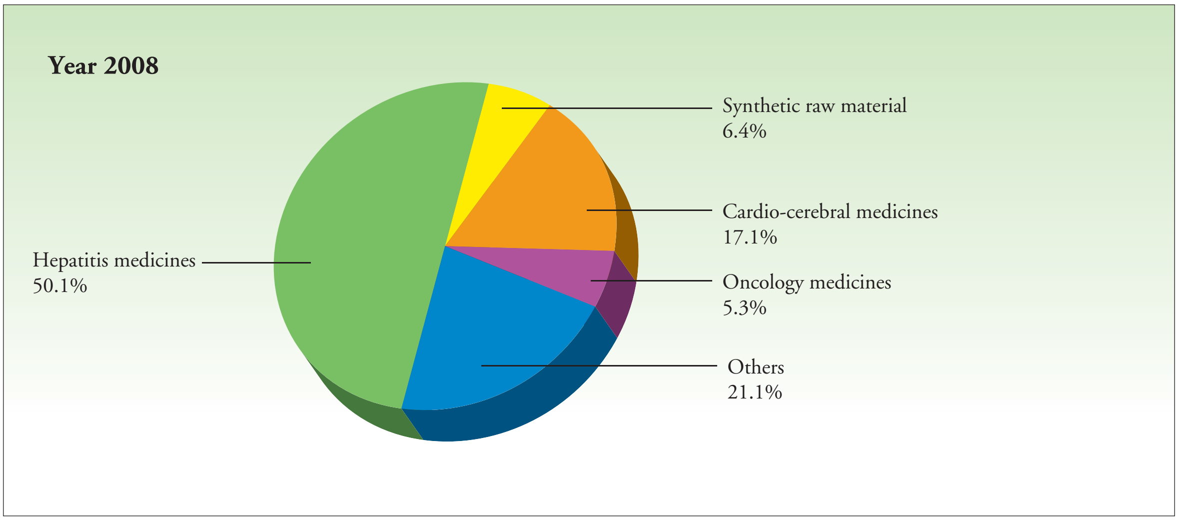
CASH AND BANK BALANCES

Fig.1.6



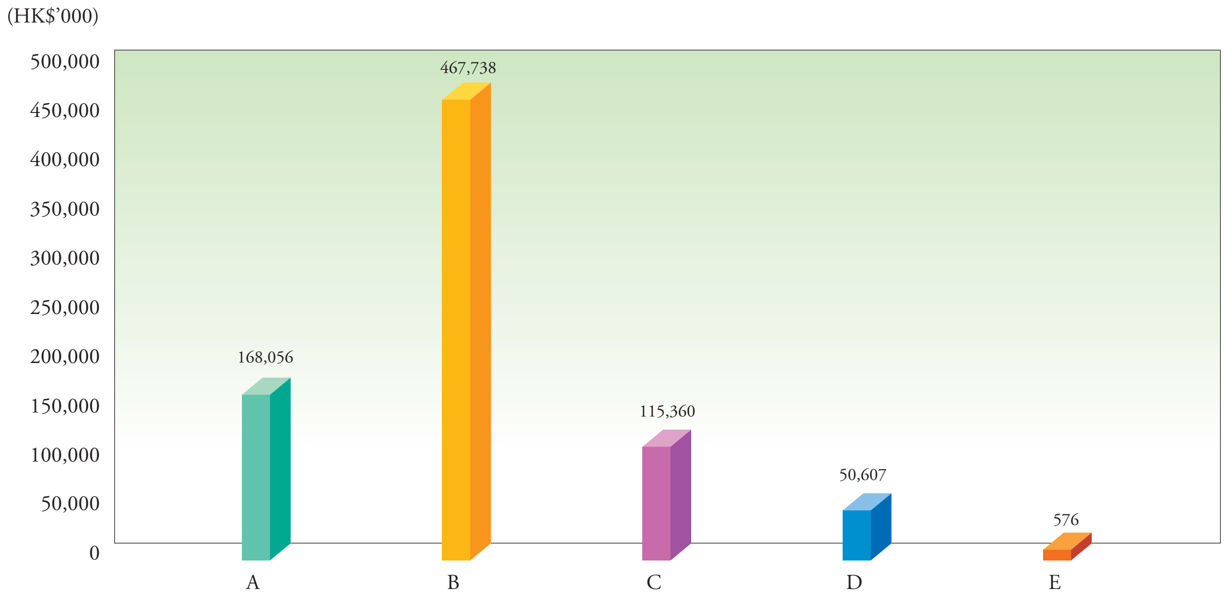
TURNOVER BY THERAPEUTIC CATEGORIES

Fig.1.7



TURNOVER BY NEW PRODUCTS WITH GREAT POTENTIAL (2008)

Fig.1.8



A	Tianqingganmei injections (launched in November, 2005)
B	Mingzheng capsules (launched in July, 2006)
C	Kaifen injections (launched in January, 2005)
D	Tianqingning injections (launched in November, 2006)
E	Beijia tablets (launched in November, 2006)

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 Province
- 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 Province
- Beijing Tide and CT Green Continent 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
- Beijing Tide was awarded "The Potential Enterprises in the PRC in 2009" by Forbes Asia

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 the PRC
- 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 the PRC
- Tianqingganmei injections received "Scientific and Technological Progress Second Honor Award" from Jiangsu Provincal Government

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 31 December, 2008 for the Group.

INDUSTRY OVERVIEW

The pharmaceutical industry in the PRC recorded steady development in 2008 despite the challenging environment resulting from the global financial crisis and economic recession. The overall industry maintained stable production and operation. With strong sales activating the market, economic returns continued to improve. The achievement was mainly attributable to major governmental efforts in recent years in strengthening the medical and healthcare system of the country and consolidating a comprehensive medical assurance system. As the growth of the economy continues, coupled with the improvement of the living standard of the PRC population, their consumption over pharmaceutical products has also kept increasing. However, the cost of the industry also increased as a result of a number of external factors.

BUSINESS REVIEW

During the year under review, the Group continued to focus on strengthening its business scope and capability and place utmost importance on ensuring that its products are safe and effective. It also kept on strengthening the management of its sales network and through academic marketing to promote the innovative technologies used in production, thereby enhanced the profile of the Company and its products. Furthermore, by adopting corporate management for JCTT, which has helped the integration of resources on research and development ("R&D") of new products and manufacturing and sales channels, the Group was able to improve operational efficiency and maintained notable growth of its business for the year. The Group's various principal products continued to constitute the

JCTT's factory

NJCTT's factory

Beijing Tide's factory

Chairman's Statement

leading market share in their respective therapeutic segments. The Group also laid emphasis on the R&D of new products and the protection of intellectual property rights. With our continuous efforts, the new products and their patented rights brought promising returns to the enterprises.

In the past year, the Group has obtained a stable development despite the global financial crisis. The Company not only has not laid off staff, but has continued to recruit suitable employees. Their salaries had also not been reduced but rather increased reasonably according to the market condition.

In 2006, the Company, through its wholly-owned subsidiary CTRC, signed a joint venture agreement with three companies to establish Shaanxi Xinxing Energy Chemical Industry Limited ("SXEC"), which it has 43% interest. SXEC will be engaged in the refining of coal to olefin in Shaanxi, the PRC. Taking into account the current relatively fluctuating price of petroleum, using cheaper coal as a new source of material for producing olefin has strategic value. Since it takes time to assess the impacts on the environment and water resources of such industrial projects, the project is still in the early preparation stage.

The Group recorded turnover of approximately HK$2,282.21 million during the year, an increase of approximately 96% against the same period last year. Profit attributable to the Group was approximately HK$297.62 million, approximately 32.7% higher than in the same period last year. Basic earnings per share were approximately HK13.15 cents, representing an increase of approximately 32.7% when compared with the corresponding period last year. Cash and bank balances totaled approximately HK$1,875.01 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 medicines and respiratory medicines, etc.

OUTLOOK AND PROSPECT

The Group believes the global financial crisis will lead to worldwide economic recession. As for the PRC economy, it will also be facing pressures from both cyclical and structural changes, causing the operating environment of the pharmaceutical industry to be harsh in 2009. However, as the important arena of medical treatment, the pharmaceutical industry will benefit from the active measures imposed by the government to stimulate the economy and push forward the medical and healthcare system reforms. Despite the pressure exerted from the government regulations and pricing control policy, the PRC pharmaceutical industry will be able to maintain steady growth. Also, the medical reform will inevitably change the pharmaceutical industry bringing to it more intense competition in 2009. Heeding that trend, enhancing corporate competitiveness and enlarging market share will be the primary tasks of players in the pharmaceutical industry in the coming year.

The Group would still place top focus on quality management of its products in the coming year in order to secure products safety and to safeguard brand competitiveness. Facing the intensified market competition, the Group would continue to strengthen marketing management with the injection of appropriate resources so as to strive for enlarging our market share. It would also quicken the R&D of new products and launch appropriate qualified products to the PRC pharmaceutical market in order to maintain the leading position in its therapeutic segments. Based on its strong foundation and ample capital position, the Group would seek to speed up growth through mergers and acquisitions and restructuring and consolidating its business operations, with the aim of expanding its strength and business scale.

At the coal to olefin business perspective, taking heed of the loomed global financial crisis, the Group will look for opportunities to secure cheaper source of material for producing olefin. The business is expected to bring stable and promising revenue to the Group and provide 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.

Qingdao Haier's factory

Jiangsu Qingjiang's factory

Factories of Jiangsu Fenghai and Yancheng Suhai

The Group's principal profit contributors are JCTT, Beijing Tide, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") and Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("CTQ").


Chinese Premier Wen Jiabao met with Professor Mizushima Yataka

Cardio-cerebral medicines

Cardio-cerebral medicines are manufactured mainly by Beijing Tide and NJCTT and accounted for approximately 17.1% 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 used by the Group enhances the product to have more apparent effect than similar products in the market, which allows it to enjoy majority market share. Beijing Tide was awarded GMP medicine certification by the Public Welfare and Health Ministry of Japan in February, 2008. For the year ended 31 December, 2008, sales of Kaishi injections amounted to approximately HK$602.31 million, an increase of approximately 24.4% as compared with the same period last year.

The Spring PVC-free soft bags for intravenous injections and the Spring injections manufactured by NJCTT are known for their stable quality since launched. 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, 2008, sales of the two products amounted to approximately HK$45.36 million, an increase of approximately 10.1% when compared with the same period last year.

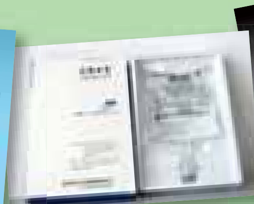
The sales of Tianqingganan injections manufactured and sold by NJCTT have had satisfactory growth since launched in 2004. For the year ended 31 December, 2008, the product recorded sales of approximately HK$33.53 million, an increase of approximately 19.1% when compared with the same period last year.

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, 2008, the product recorded sales of approximately HK$50.61 million, an increase of approximately 214.4% when compared with the same period last year.

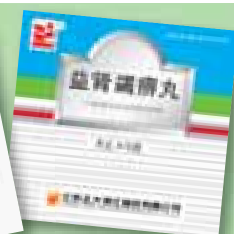

Kaishi injections


Spring PVC-free soft bags for intravenous injections


Spring injections


Tianqinganan injections


Tianqingning injections


Yishenjuanbi pills

Hepatitis medicines

Hepatitis medicines is one of JCTT's main product series which recorded sales of approximately HK$1,142.42 million for the year ended 31 December, 2008 and accounted for approximately 50.1% 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 number 1 hepatitis medicine brand in the PRC. After the protection period of the product expired, many replicas have emerged into the market, resulting in intensified competition. The Group thus developed Tianqingganping enteric capsules with better therapeutic effect than Ganlixin capsules and its intellectual property right being protected. Sales of the medicine continued to increase to approximately HK$125.78 million in the reviewing year, representing a growth of approximately 56.9% when compared with the same period last year. In 2005, JCTT launched the patented medicine Tianqingganmei injections, which was made with Isoglycyrrhizinate separated from Licorice. The product has bright prospects and recorded the sales of approximately HK$168.06 million, an increase of approximately 157% against the same period last year. The Group believes that medicine series 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 launched with sales increasing rapidly. Mingzheng capsules have become another blockbuster product for combating hepatitis virus. For the year ended 31 December, 2008, its sales amounted to approximately HK$467.74 million, an approximately 107.5% increase when compared with the same period last year.

Tianqingfuxin injections and capsules are the modernized Chinese medicines for fighting hepatitis virus. As a result of intense market competition, during the year ended 31 December, 2008, its price dropped and its sales amounted to approximately HK$112.46 million, a slight increase of approximately 9.1% when compared with the same period last year.

Oncology medicines

Tianqingyitai injections, Tianqingrian injections and Renyi injections are mainly developed and manufactured by JCTT and NJCTT. For the year ended 31 December, 2008, sales of oncology medicines amounted to approximately HK$120.84 million, an increase of approximately 59.3% as compared with the same period last year.

Analgesic medicines

Launched in 2005, the analgesic medicine Kaifen injections is developed and manufactured by Beijing Tide. It is a Flurbiprofen Axetil 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 launched. Sales of the product for the year ended 31 December, 2008 amounted to approximately HK$129.29 million, approximately 94.7% higher than that as compared with the same period last year.

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

Diabetic medicines

The main diabetic medicine of the Group, Taibai sustained release tablets, which is used for lowering blood sugar level, was developed and manufactured by JCTT. Taking into account that there are more than 30 million diabetics in the PRC and Taibai sustained release tablets has sustained release capability for keeping a patient's blood sugar level steady, the product is expected to record remarkable sales in future. For the year ended 31 December, 2008, the sales of the product have increased by approximately 64% as compared with the same period last year.

R&D

The Group continued to focus R&D efforts on new cardio-cerebral, hepatitis, oncology, analgesia and respiratory system medicines. During the year under review, it received 18 production approvals and 14 clinical research approvals. Also, a total of 66 cases had completed clinical research, or were under clinical trial or applying for production approval, out of which, 16 cardio-cerebral medicines, 12 hepatitis medicines, 5 oncology medicines, 5 respiratory system medicines and 28 other medicines are being developed.

The Group emphasizes on "development of proprietary innovative medicines and generic drugs by itself as well as through coordination with other domestic and foreign parties" in order to improve the R&D standard and progress. In light of the fact that R&D continues to be the foundation of the development of the enterprises and that the government encourages the direction of innovative development, the Group continues to focus on the injection of resources towards R&D. In 2008, it invested approximately HK$87.58 million in R&D, which accounted for approximately 4% of turnover.

The Group also emphasizes on the protection of intellectual property rights. It encourages the active initiation of patent application in order to enhance the Group's core competitiveness. In 2008, the Group has filed 87 invention patents, 4 apparel design patents and 59 announced patents. It also obtained 74 invention patent rights. Together, the Group has obtained 206 invention patent rights, 3 utility model patent rights and 15 apparel design patent rights.

INVESTOR RELATIONS

The Group is dedicated to maintaining high level of transparency. During the year under review, the Group kept close contact and held teleconferences with financial analysts, fund managers and potential investors including Morgan Stanley Asia Limited, Goldman Sachs Gao Hua Securities Company Ltd., DBS Vickers (Hong Kong) Limited, OSK Hong Kong Holdings Limited and SBI E2-Capital (HK) Limited, to strengthen their understanding towards the Group's operations, business strategies and future development.

To further facilitate effective communication, the Group posts its annual and interim reports, quarterly, interim and annual results announcements, disclosure and circulars on its corporate website http://www.sinobiopharm.com and also the website of Hong Kong Exchanges and Clearing Limited, with the aim of maintaining a high degree of transparency in relation to disclosure of financial and other information to shareholders. The Group also informs the public about its latest business development by issuing press releases.

Tianqingyitai injections | Renyi injections | Taibai sustained release tablets | Beijia tablets | Tianqingzhengshu tablets | Ossified Oestriol capsules | Fenghaineng fructose injections

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year under review, 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, 2008, the Group's cash and bank balances was approximately HK$1,875.01 million (31 December, 2007: approximately HK$1,775.75 million).

AVAILABLE-FOR-SALE INVESTMENT

During the year under review, the total accumulated loss of the Group's available-for-sale investment recognized directly in the income statement amounted to approximately HK$25,522,000 (2007: approximately HK$9,979,000 directly recognized in equity).

CAPITAL STRUCTURE

As at 31 December, 2008, the Group had short term loans of approximately HK$102.22 million (31 December, 2007: approximately HK$36.98 million) and no long term loans (31 December, 2007: approximately HK$21.38 million).

CHARGE ON ASSETS

As at 31 December, 2008, the Group had no charge on assets (31 December, 2007: approximately HK$28,091,000).

CONTINGENT LIABILITIES

As at 31 December, 2008, the Group and the Company had no material contingent liabilities (31 December, 2007: Nil).

ASSETS AND GEARING RATIO

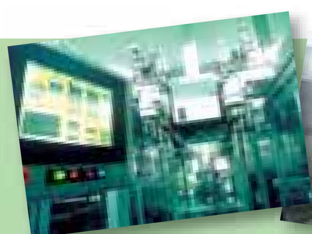
As at 31 December, 2008, the total assets of the Group amounted to approximately HK$3,267.38 million (31 December, 2007: approximately HK$2,582.10 million) whereas the total liabilities amounted to approximately HK$615.45 million (31 December, 2007: approximately HK$361.80 million). The gearing ratio (total liabilities over total assets) was approximately 18.8% (31 December, 2007: approximately 14.0%).

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$202,887,000 (2007: approximately HK$181,918,000).

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

Production line of Qingdao Haier

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, 2008, the Company has applied the principles and complied with the code provisions prescribed in Appendix 14 – Code on Corporate Governance Practices (the "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 deviation from Code Provision A.2.1, 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 deviation (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.

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, 2008, 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 a total of ten directors, which has included a Chairman, a Vice Chairman, a Chief Executive Officer ("CEO"), four Executive Directors and three INEDs.

Position		Name
Chairman	:	Mr. Tse Ping
Executive Directors	:	Mr. Zhang Baowen (Vice Chairman)
	:	Mr. Xu Xiaoyang (CEO)
	:	Mr. Tse Hsin
	:	Ms. Cheng Cheung Ling
	:	Mr. Tao Huiqi
	:	Mr. He Huiyu
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, during the year ended 31 December, 2008 and up to 30 March, 2009, Mr. Tse Ping acted as both the Chairman and CEO of the Company. The Board considered 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 discussed 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 during the year ended 31 December, 2008 and up to 30 March, 2009, Mr. Tse Ping was 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.

On 31 March, 2009, Mr. Xu Xiaoyang was appointed as CEO of the Company responsible for managing the Group's business and operations. He has no financial, business, family or other material/relevant relationship among members of the Board and between the Chairman and the CEO.

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.

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 not to 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 (the "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 Executive Board Committee (the "EBC") and Remuneration Committee (the "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), Mr. Zhang Baowen, Mr. Xu Xiaoyang (appointed on 31 March, 2009) 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 and that the scheme mandate has been renewed on 18 June, 2007. 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 (the "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 includes:

- 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, 2008:

- reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31 December, 2007 and management letter;
- reviewed with management the unaudited quarterly financial statements for the three months ended 31 March, 2008, interim financial statements for the six months ended 30 June, 2008 and the quarterly financial statements for the nine months ended 30 September, 2008;
- 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 the 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.

Subsequent to the year-end date, on 27 March, 2009, at a meeting held by the AC, the AC has discussed the recent amendments effected since 1 January, 2009 made by the Stock Exchange on the CG Code including, inter alia, on the internal controls whereby the Board and the management shall also be responsible to conduct an annual review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programme and budget and that the AC shall be responsible to ensure the aforesaid duty is discharged by the Board.

The AC has resolved to include the above requirement as the terms of reference of the AC. They would also discuss the same with the Board.

BOARD AND COMMITTEE ATTENDANCE

The Board has held four regular meetings in 2008. Details of the attendance of individual director at Board meetings and committee meetings during the year 2008 are set out below:

	No. of meetings attended/held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Tse Ping	4/4	1/1	N/A
Mr. Zhang Baowen	4/4	N/A	N/A
Mr. Xu Xiaoyang (appointed on 31/03/2009)	–	N/A	N/A
Mr. Tse Hsin	4/4	N/A	N/A
Ms. Cheng Cheung Ling	2/4	N/A	N/A
Mr. Tao Huiqi	0/4	N/A	N/A
Mr. He Huiyu	4/4	N/A	N/A
Independent Non-Executive Directors			
Mr. Lu Zhengfei	3/4	1/1	3/4
Mr. Li Dakui	4/4	N/A	4/4
Ms. Li Jun	4/4	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.

Subsequent to the year-end date, the Board has also conducted a review of the adequacy of resources, qualifications and experience of staff of its accounting and financial reporting function, and their training programmes and budget.

AUDITORS' REMUNERATION

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

	Fee Paid/Payable **2008** (HK$'000)
Services rendered	
Audit Services	2,294
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 or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of the AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available 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.

During the year under review, the AGM of the Company was held on 24 June, 2008. 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 AGM. Together with Mr. He Huiyu, Mr. Tse Hsin and Ms. Cheng Cheung Ling, executive Directors, they answered questions at the AGM.

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.

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

According to the current articles of association (the "Articles") of the Company, 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.

According to the current Articles of the Company, 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.

In order to ensure compliance with the amendments to the Listing Rules, including, inter alia, to the requirement of voting by poll at any general meeting of shareholders, the Company will amend its Articles.

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.

D. SUBSEQUENT DEVELOPMENT

The Stock Exchange has announced various amendments to the Listing Rules including, inter alia, some new code provisions of the CG Code and they have become effective on 1 January, 2009. The Company would consult professional advisers on the appropriate and necessary action for compliance.

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, 2008.

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, 2008 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 117.

The payment for the first quarter dividend of HK$0.015 per ordinary share, the interim dividend of HK$0.015 per ordinary share, and the third quarter dividend of HK$0.01 per ordinary share totaling HK$90,560,000 was paid during 2008.

The directors recommend the payment of a final dividend of HK$0.02 per ordinary share in respect of the year ended 31 December, 2008 to shareholders on the register of members on Monday, 8 June, 2009. 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.

	2008 **HK$'000**	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
CONTINUING OPERATIONS					
TURNOVER	**2,282,213**	1,164,274	734,652	756,073	664,296
Cost of sales	**(473,245)**	(205,764)	(138,788)	(139,418)	(133,163)
Gross profit	**1,808,968**	958,510	595,864	616,655	531,133
Other income and gains	**95,006**	98,367	91,486	28,599	7,063
Selling and distribution costs	**(876,591)**	(503,751)	(327,720)	(310,609)	(253,390)
Administrative expenses	**(305,493)**	(154,708)	(121,802)	(110,866)	(101,885)
Other operating expenses	**(112,492)**	(53,743)	(31,254)	(42,224)	(33,382)
Finance costs	**(9,135)**	(2,575)	(2,205)	(2,729)	(1,050)
Share of profit of an associate	**–**	216	704	–	–
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT	**600,263**	342,316	205,073	178,826	148,489
Fair value adjustment	**–**	–		(66,315)	–
PROFIT BEFORE TAX AND AFTER FAIR VALUE ADJUSTMENT	**600,263**	342,316	205,073	112,511	148,489
Tax	**(118,260)**	(33,972)	(22,106)	(18,311)	(15,407)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**482,003**	308,344	182,967	94,200	133,082
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	–	152,213	152,129
Gain on disposal of subsidiaries	**–**	–	–	1,406,191	–
Total profit for the year from a discontinued operation	**–**	–	–	1,558,404	152,129
PROFIT FOR THE YEAR	**482,003**	308,344	182,967	1,652,604	285,211
Attributable to:					
Equity holders of the parent	**297,615**	224,353	141,172	1,532,929	168,485
Minority interests	**184,388**	83,991	41,795	119,675	116,726
	482,003	308,344	182,967	1,652,604	285,211
TOTAL ASSETS	**3,267,380**	2,582,099	2,215,110	2,140,222	950,535
TOTAL LIABILITIES (exclude convertible bonds)	**(615,446)**	(361,796)	(183,611)	(164,978)	(239,845)
CONVERTIBLE BONDS	**–**	–	–	–	(42,900)
NET ASSETS	**2,651,934**	2,220,303	2,031,499	1,975,244	667,790
MINORITY INTERESTS	**(423,006)**	(201,055)	(122,937)	(121,997)	(211,716)

PROPERTIES, 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 notes 30 and 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 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2008, 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 (2007: HK$45,279,000), amounted to HK$1,467,987,000 (2007: HK$1,549,662,000). 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.

DIRECTORS

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

Executive directors:
Mr. Tse Ping
Mr. Zhang Baowen
Mr. Xu Xiaoyang (appointed on 31 March, 2009)
Mr. Tse Hsin
Ms. Cheng Cheung Ling
Mr. Tao Huiqi
Mr. He Huiyu

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

In accordance with article 86 of the Company's articles of association, Mr. Xu Xiaoyang will retire and, being eligible, offer himself for re-election at the forthcoming general meeting.

In accordance with article 87 of the Company's articles of association, Mr. Tse Ping, Mr. Zhang Baowen and Mr. Tao Huiqi 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 and 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 36 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, 2008, 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. Tse Hsin		Beneficial owner	29,262,000	–	–	29,262,000	1.29%
Mr. Tao Huiqi		Beneficial owner	2,000,000	–	–	2,000,000	0.09%

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 in a controlled corporation	2,340,900	25%
	Yancheng Suhai Pharmaceutical Co., Ltd. (鹽城蘇海製藥有限公司) ("Yancheng Suhai")	Interest in a controlled corporation	2,320,500	25%
Ms. Cheng Cheung Ling	Jiangsu Fenghai	Deemed interest	2,340,900	25%
	Yancheng Suhai	Deemed interest	2,320,500	25%
Mr. Zhang Baowen	Jiangsu Fenghai	Beneficial owner	59,715	0.64%
	Yancheng Suhai	Beneficial owner	59,194	0.64%
	Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (江蘇正大天晴藥業股份有限公司) ("JCTT")	Beneficial owner	229,250	0.18%
	Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (南京正大天晴藥業有限公司) ("NJCTT")	Beneficial owner	26,583	0.53%
	Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd (江蘇正大清江製藥有限公司) ("Jiangsu Qingjiang")	Beneficial owner	150,866	0.31%
Mr. Tse Hsin	JCTT	Beneficial owner	229,250	0.18%
	NJCTT	Beneficial owner	26,583	0.53%

Saved as disclosed above, as at 31 December, 2008, 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, 2008, 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 controlled corporations	179,916,000	7.95%
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 179,916,000 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 179,916,000 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, 2008, 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 and in the "Share option scheme" below, 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 36 to the financial statements, which also constituted continuing connected transactions under the Listing Rules:–

On 9 November, 2007, Lianyungang Chia Tai Tianqing Medicine Co., Ltd. ("LYG Tianqing"), a wholly-owned subsidiary of our 60%-owned subsidiary, JCTT, as the purchaser, has entered into an agreement with NJCTT (an associate of Jiangsu State Agribusiness Group Corporation Ltd., a 33.5% equity holder of JCTT (a connected person of the Company) ("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-flammatory medicines for three years from 1 January, 2008 to 31 December, 2010 for an annual cap 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.

On 9 November, 2007, LYG 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 an annual cap 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.

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 2 January, 2008, JCTT has entered into four land use right transfer agreements (the "Land Use Right 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 Investment Limited ("Fine Enterprise") (a wholly-owned subsidiary of the Company), Jiangsu Agribusiness (a connected person of the Company) and Huaian Hongda Investment Consulting Centre ("Huaian Hongda") whereby JCTT has agreed to contribute RMB38,326,400 (approximately HK$40,400,000) to Jiangsu Qingjiang (a connected person of the Company). 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.

CONNECTED TRANSACTIONS (continued)

On 29 January, 2008, CT Green Continent, a 75%-owned subsidiary of the Company, has entered into a 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 to Jiangsu Qingjiang 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 (a connected person of the Company) whereby Jiangsu Qingjiang has agreed to purchase four pharmaceutical products from CT Green Continent for RMB2,600,000 (approximately HK$2,741,000).

On 17 April, 2008, the Company, as the tenant and Billion Source Holdings Limited ("Billion Source") (held as to 50/50 respectively by Mr. Tse Ping and Ms. Cheng Cheung Ling, Directors of the Company and a connected person of the Company), as the landlord, entered into a tenancy agreement regarding the letting of an office premises in Beijing for a term of three years from 1 January, 2008 to 31 December, 2010 for an annual rental not exceeding RMB3,000,000 (approximately HK$3,326,000), RMB3,300,000 (approximately HK$3,659,000) and RMB3,630,000 (approximately HK$4,025,000), respectively.

On 24 September, 2008, the Company has increased the annual cap under a master purchase agreement previously made between JCTT, as the purchaser, and Jiangsu State Agribusiness Commercial Commodities Limited (a wholly-owned subsidiary of Jiangsu Agribusiness and a connected person of the Company) ("Jiangsu Agribusiness Commodities"), as the supplier, for the purchase of coal, for the year ended 31 December, 2008 from RMB3,400,000 (approximately HK$3,868,000) to RMB6,400,000 (HK$7,281,000).

On 24 September, 2008, JCTT, as the purchaser, has entered into a new master purchase agreement with Jiangsu Agribusiness Commodities, as the supplier, for the purchase of coal for three years from 1 January, 2009 to 31 December, 2011 for an annual cap not exceeding RMB7,800,000 (approximately HK$8,874,000), RMB9,000,000 (approximately HK$10,239,000) and RMB12,000,000 (approximately HK$13,652,000), respectively.

On 24 September, 2008, CT Green Continent as service provider has entered into a new technology development services agreement with Jiangsu Fenghai (a connected person of the Company) for the provision of technology development services for cardio-cerebral medicines, gastrointestinal medicines, anti-diabetic medicines and antibiotics for three years from 1 January, 2009 to 31 December, 2011 for an annual cap not exceeding RMB5,000,000 (approximately HK$5,689,000) each year.

On 24 September, 2008, JCTT and Jiangsu Agribusiness (a connected person of the Company) mutually agreed to terminate the Land Use Right Agreements and entered into a termination agreement (the "Termination Agreement") whereby no consideration was paid pursuant to the Termination Agreement.

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

CONNECTED TRANSACTIONS (continued)

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.

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, 2008.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

As at 31 December, 2008, 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 medicines. 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;

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (continued)

"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

"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 39 to the financial statements.

EMOLUMENT POLICY

Including the Directors, the Group had around 3,497 employees as at 31 December, 2008. 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 Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December, 2008, with the exception of a deviation from Code Provision A.2.1:–

> Code Provision A.2.1 – The Code Provision 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.

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 will be set out in the 2008 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, 2008 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
31 March, 2009

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. Tse Ping（謝炳先生）, aged 57, is the Founder and Chairman of the Company. He is responsible for the overall operations of the Group. With more than 18 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）), which is now listed on the Shenzhen Stock Exchange in the PRC. Mr. Tse was also formerly 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. Mr. Tse is still 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 currently the vice chairman of Chia Tai Enterprises International Limited, an investment holding company listed on the Main Board of the Stock Exchange.

Within the contemporary pharmaceutical industry, with the leadership by Mr. Tse Ping, Sino Biopharmaceutical Limited's market in hepatitis medicines and the therapeutic segment of micro-sphere target sustained medicine demonstrate a leading position. JCTT, Beijing Tide and CTQ were ranked the top 100 profit-making enterprises under the National Pharmaceutical Industrial Statistics Annual Report. In November, 2005, the Company was awarded "Best under 1 US Billion enterprise within the Asian Pacific Region" by Forbes Asia. At the first "Capital – Chinese Outstanding Enterprise Achievement Prize" campaign launched by the Capital Magazine, the Company was awarded "Capital – Chinese Outstanding Pharmaceutical Group Prize" in May, 2006. In January, 2008, Mr. Tse was awarded in Hong Kong with "the World Outstanding Chinese" and a honorable Doctor Degree by the University of West Alabama, United States of America. In December, 2008, he was awarded "2007/2008 Asian Knowledge Management Association academician" by the Asian Knowledge Management Association.

Mr. Tse is a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference. He is currently the vice chairman of Chaozhou Natives Chamber of Commerce Beijing and Chaozhou Natives Overseas Association in Beijing. He is also the Honorable Chairman of Beijing Thai Immigrants Association and the Honorable Consultant of Hong Kong (Xian) Association.

Mr. Zhang Baowen（張寶文先生）, aged 52, is the Vice Chairman, 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 a director of JCTT, NJCTT, LYG Tianqing, Lianyuangang Chia Tai Hualing Pharmaceutical Co., Ltd. ("LYG Hualing"), Jiangsu Fenghai, Yancheng Suhai, Jiangsu Qingjiang, CTGC, Qingdao Haier and HTPC. 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 26 years of experience in the pharmaceutical industry. Mr. Zhang has 5 invention patents and has released thesis in the United States of America.

Mr. Xu Xiaoyang（徐曉陽先生）, aged 46, joined the Group in September, 2007. He is the Chief Executive Officer of the Company. He also served as President, senior engineer and practicing pharmacist of the Group. He is responsible for affairs with government authorities, management of various subsidiaries, certain investment projects and human resources of the Group. He obtained a Bachelor Degree in Industrial Science from Chinese Medicine Department of the Business Faculty of Harbin University of Commerce (previously known as "Heilongjiang Institute of Commerce"). Before joining the Group, he had worked as chief engineer and general manager in Tianjin Darentang Pharmaceutical Factory. In 1992, Mr. Xu was selected by the Sino-Japan Association for International Exchange of Talents for the Japan Association for Overseas Technical Scholarship (AOTS) program and studied research and development and management for one year with Matsuura Yakugyo, Japan and obtained an education proof. He has also studied a Master Degree of Business Administration in Tianjin University of Finance and Economics during

1997 and 1998. In 1999, he also studied Business Administration in Technische Fachhochschule Berlin. Mr. Xu is the leader in natural science technology segment in Tianjin, an expert in pricing strategy of the pharmaceutical products assessment centre of the The National Development and Reform Commission, technical consultant of the China Chamber of Commerce of Medicines and Health Products Importers and Exporters, an expert in China Association of Traditional Chinese Medicines and a member of the Eighth editorial committee of "Chinese Herbs Magazine" and a member of the Tianjin Euro-American Students Association. Mr. Xu has several patents and released various thesis.

Mr. Tse Hsin（謝炘先生）, aged 39, 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 general manager 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, LYG 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 and Executive Director of the Company and the brother of Ms. Tse Wun, a member of the senior management of the Company.

Ms. Cheng Cheung Ling（鄭翔玲女士）, aged 45, graduated from the Guanghua School of Management of Peking University and obtained a Master Degree in Business Administration. She joined the Company as an executive director in January, 2005. She is responsible for the public relation affairs of the Group. She is also the member of the Standing Committee 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.

Mr. Tao Huiqi（陶惠啟先生）, aged 59, joined the Group in April, 1997 and is the vice chairman of JCTT. He is responsible for the general operations of JCTT and NJCTT. 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, Jiangsu Economic Planning Commission, and Jiangsu Pharmaceutical Administration, respectively.

Mr. He Huiyu（何惠宇先生）, aged 65, 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.

Independent non-executive Directors

Mr. Lu Zhengfei (陸正飛先生), aged 45, 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.

Mr. Li Dakui (李大魁先生), aged 64, 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 40, joined the Company as an independent non-executive director and a member of the audit committee in January, 2005 and 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 also studied at SOAS, London. She has been qualified as a PRC lawyer since 1992. She 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. Ms. Li has extensive experience in various areas of litigation, arbitration and dispute resolution work, mainly in dealing with commercial disputes, civil tort and administrative disputes. She is also engaged in great deal of non-disputes tasks such as change of constitution of state-owned enterprises, initial public offering and mergers and acquisition.

SENIOR MANAGEMENT

Ms. Leung Sau Fung, Fanny (梁秀鳳女士), is the 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 55, 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.

Directors and Senior Management Profile

Ms. Cheng Hui (程惠女士), aged 45, 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 50, is the office manager 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 26 years of experience in the pharmaceutical industry.

Ms. Dong Ping (董萍女士), aged 40, 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 47, 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. Wu Yuchao (吳玉潮先生), aged 62, has more than ten years of experience in group operation. Mr. Xu was the deputy general manager of Nantong Farm and the general manager of Huaiyin Qingjiang Pharmaceutical factory. He also worked at the industry department of Jiangsu Agribusiness Group and make great contribution to the industry development of the agribusiness group. Mr. Wu joined Jiangsu Fenghai as the vice chairman of the board of directors and the general manager in 2005. He was awarded Dafeng Famous Entrepreneur in 2007 and 2008.

Mr. Tian Zhoushan (田舟山先生), aged 45, 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.

Mr. Tang Zhaocheng (唐兆成先生), aged 42, 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.

Ms. Han Caifeng (韓才峰女士), aged 50, 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. Wang Minggang (王明剛先生)**,** aged 52, joined the Group in September, 2008 and is the vice chairman of the board of directors and the general manager of Qingdao Haier. He is also a practicing doctor and a senior engineer. Mr. Wang has worked in some large-scale domestic and foreign pharmaceutical companies and he has more than 20 years of experience in the pharmaceutical industry. He has been the marketing director of Xian Chia Tai Pharmaceutical Co., Ltd., the sales general manager of Beijing Sihuan Pharmaceutical Factory, and the general manager of Qingdao Haier. Mr. Wang is also a member of Qingdao Pharmaceutical Association, a member of Qingdao Medical Association, and a member of the Tenth Qingdao Laoshan District's Committee of the Chinese People's Political Consultative Conference.

Mr. Qu Yunzhi (曲韵智先生), aged 53, 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. Zhang Xiquan (張喜全先生), aged 39, 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. Li Chun Ling (李春玲女士), aged 37, 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.

Ms. Gu Liping (顧莉萍女士), aged 47, 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. Li Jinming (李金明先生), aged 44, 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. Wang Hong (王宏先生), aged 45, 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 Xichang (張夕昌先生), aged 67, 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 61, 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.

Directors and Senior Management Profile

Dr. Ye Wei Nong (葉衛農博士), aged 46, 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 51, 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 42, 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.

Mr. Lu Yuehui (呂月輝先生), aged 55, 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 26 years of experience in finance and accounting profession and is a qualified accountant.

Mr. Zhang Zhenqian (張震乾先生), aged 39, 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.

Mr. Tse Hsuan, Johnny (謝炫先生), aged 39, is the 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 31, is the assistant to the Company's financial controller in the PRC. Mr. Wang studied in the department of economics with major 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 42, 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 15 years of experience in sales and marketing in pharmaceutical industry.

Mr. Shen Xiaoguang (沈曉光先生), aged 37, is the 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 11 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. Zhang Baowen
Mr. Xu Xiaoyang
Mr. Tse Hsin
Ms. Cheng Cheung Ling
Mr. Tao Huiqi
Mr. He Huiyu

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:
Morrison & Foerster
33rd Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
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

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 117, which comprise the consolidated and company balance sheets as at 31 December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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, 2008 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
18th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong
31 March, 2009

Consolidated Income Statement

Year ended 31 December, 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**2,282,213**	1,164,274
Cost of sales		**(473,245)**	(205,764)
Gross profit		**1,808,968**	958,510
Other income and gains	5	**95,006**	98,367
Selling and distribution costs		**(876,591)**	(503,751)
Administrative expenses		**(305,493)**	(154,708)
Other expenses		**(112,492)**	(53,743)
Finance costs	7	**(9,135)**	(2,575)
Share of profit of an associate		**–**	216
PROFIT BEFORE TAX	6	**600,263**	342,316
Tax	10	**(118,260)**	(33,972)
PROFIT FOR THE YEAR		**482,003**	308,344
Attributable to:			
Equity holders of the parent	13	**297,615**	224,353
Minority interests		**184,388**	83,991
		482,003	308,344
DIVIDENDS	12		
Interim		**90,560**	90,560
Proposed final		**45,279**	45,279
		135,839	135,839
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK13.15 cents**	HK9.91 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December, 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**584,102**	339,400
Prepaid land lease payments	15	**79,507**	29,282
Goodwill	16	**47,684**	44,322
Other intangible assets	17	**43,820**	29,804
Available-for-sale investments	20	**50,083**	63,895
Deferred tax assets	29	**3,405**	1,511
TOTAL NON-CURRENT ASSETS		**808,601**	508,214
CURRENT ASSETS			
Inventories	21	**185,244**	70,125
Trade receivables	22	**359,288**	199,751
Prepayments, deposits and other receivables	23	**36,819**	26,238
Due from related companies	36	**2,423**	2,020
Cash and bank balances	24	**1,875,005**	1,775,751
TOTAL CURRENT ASSETS		**2,458,779**	2,073,885
CURRENT LIABILITIES			
Trade payables	25	**74,413**	36,167
Other payables and accruals	26	**368,330**	227,608
Interest-bearing bank borrowings	27	**102,222**	36,980
Tax payable		**23,367**	18,292
Due to related companies	36	**11,287**	4,553
TOTAL CURRENT LIABILITIES		**579,619**	323,600
NET CURRENT ASSETS		**1,879,160**	1,750,285
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,687,761**	2,258,499

Consolidated Balance Sheet

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	–	21,376
Deferred government grants	28	**7,882**	7,551
Deferred tax liabilities	29	**27,945**	428
Due to a related company	36	–	8,841
TOTAL NON-CURRENT LIABILITIES		**35,827**	38,196
NET ASSETS		**2,651,934**	2,220,303
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	30	**56,599**	56,599
Reserves	32(a)	**2,127,050**	1,917,370
Proposed final dividend	12	**45,279**	45,279
		2,228,928	2,019,248
MINORITY INTERESTS		**423,006**	201,055
TOTAL EQUITY		**2,651,934**	2,220,303

Zhang Baowen
Director

Tse Hsin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December, 2008

	Notes	Issued capital HK$'000 (note 30)	Share premium account HK$'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$'000 (note 32(a))	Exchange fluctuation reserve HK$'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
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		–	–	–	–	–	–	–	–	–	–	–	18,735	18,735
Acquisition of minority interests		–	–	(898)	–	–	–	–	–	–	–	(898)	(4,957)	(5,855)
Change in the fair value of available-for-sale investments	20	–	–	–	–	(9,979)	–	–	–	–	–	(9,979)	–	(9,979)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(31,232)	(31,232)
Final 2006 dividend paid	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 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 Statement of Changes in Equity

		Attributable to equity holders of the parent												
	Notes	Issued capital HK$'000 (note 30)	Share premium account HK$'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$'000 (note 32(a))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 (note 12)	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January, 2008		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
Exchange realignment		–	–	–	–	–	–	–	36,132	–	–	36,132	18,700	54,832
Total income and expense recognised directly in equity		–	–	–	–	–	–	–	36,132	–	–	36,132	18,700	54,832
Profit for the year		–	–	–	–	–	–	–	–	297,615	–	297,615	184,388	482,003
Total income and expense for the year		–	–	–	–	–	–	–	36,132	297,615	–	333,747	203,088	536,835
Acquisition of subsidiaries	33	–	–	–	–	–	–	–	–	–	–	–	95,337	95,337
Impairment of available-for-sale investments taken to the income statement	20	–	–	–	–	9,979	–	–	–	–	–	9,979	–	9,979
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(76,675)	(76,675)
Final 2007 dividend paid	12	–	–	–	–	–	–	–	–	–	(45,279)	(45,279)	–	(45,279)
Interim 2008 dividend paid	12	–	–	–	–	–	–	–	–	(90,560)	–	(90,560)	–	(90,560)
Proposed final 2008 dividend	12	–	–	–	–	–	–	–	–	(45,279)	45,279	–	–	–
Surplus on revaluation of buildings		–	–	–	1,793	–	–	–	–	–	–	1,793	201	1,994
Transfer from retained profits		–	–	–	–	–	–	47,643	–	(47,643)	–	–	–	–
At 31 December, 2008		56,599	281,846*	16,622*	17,505*	–*	20,743*	152,716*	78,632*	1,558,986*	45,279	2,228,928	423,006	2,651,934

* These reserve accounts comprise the consolidated reserves of HK$2,127,050,000 (2007: HK$1,917,370,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December, 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**600,263**	342,316
Adjustments for:			
Finance costs	7	**9,135**	2,575
Share of profit of an associate		**–**	(216)
Interest income	5	**(49,753)**	(81,273)
Dividend income	5	**(9,425)**	(5,049)
Depreciation	14	**39,894**	27,855
Revaluation deficit of property, plant and equipment	14	**1,026**	–
Recognition of prepaid land lease payments	15	**1,391**	726
Amortisation of other intangible assets	17	**1,649**	1,106
Write off of other intangible assets	17	**6,223**	200
Gain on disposal of items of property, plant and equipment	5	**(101)**	(41)
Impairment of available-for-sale investments	6	**25,522**	–
		625,824	288,199
Increase in inventories		**(87,688)**	(23,319)
Increase in trade receivables		**(104,610)**	(70,074)
(Increase)/decrease in prepayments, deposits and other receivables		**(2,945)**	2,809
Decrease in amounts due from related companies		**18,560**	711
Increase in trade payables		**12,114**	7,356
Increase in other payables and accruals		**69,897**	58,297
Increase in deferred government grants		**331**	18,101
(Decrease)/increase in amounts due to related companies		**(20,295)**	3,636
Cash generated from operations		**511,188**	285,716
Mainland China profits tax paid		**(95,641)**	(33,233)
Net cash inflow from operating activities		**415,547**	252,483
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**49,753**	81,273
Dividend received		**9,425**	5,049
Purchases of items of property, plant and equipment		**(191,058)**	(73,448)
Increase in prepaid land lease payments		**(24,171)**	(234)
Proceeds from disposal of items of property, plant and equipment		**9,459**	1,954
Additions to other intangible assets		**(19,699)**	(10,246)
Purchases of available-for sale investments		**(1,731)**	(44,054)
Acquisition of subsidiaries	33	**(1,678)**	(1,771)
Acquisition of minority interests		**–**	(5,855)
Increase in time deposits with original maturity of more than three months		**15,186**	(95,464)
Net cash outflow from investing activities		**(154,514)**	(142,796)

Consolidated Cash Flow Statement

	Notes	2008 HK$'000	2007 HK$'000
Net cash outflow from investing activities		**(154,514)**	(142,796)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(9,135)**	(2,575)
Dividends paid		**(135,839)**	(135,839)
Dividends paid to minority shareholders		**(76,675)**	(31,232)
New bank loans		**43,866**	35,469
Net cash outflow from financing activities		**(177,783)**	(134,177)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**83,250**	(24,490)
Cash and cash equivalents at beginning of year		**1,680,287**	1,684,162
Effect of foreign exchange rate changes, net		**31,190**	20,615
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,794,727**	1,680,287
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, unrestricted	24	**714,885**	265,107
Time deposits with original maturity of less than three months when acquired	24	**1,079,842**	1,415,180
		1,794,727	1,680,287

Balance Sheet

31 December, 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**5,167**	6,116
Investments in subsidiaries	18	**101,519**	101,519
Available-for-sale investments	20	**20,263**	34,075
TOTAL NON-CURRENT ASSETS		**126,949**	141,710
CURRENT ASSETS			
Due from subsidiaries	18	**145,932**	235,601
Prepayments, deposits and other receivables	23	**3,747**	6,761
Cash and bank balances	24	**1,365,539**	1,373,510
Total current assets		**1,515,218**	1,615,872
CURRENT LIABILITIES			
Due to subsidiaries	18	**48,215**	100,173
Tax payable		**3,698**	–
Other payables and accruals	26	**20,389**	5,869
TOTAL CURRENT LIABILITIES		**72,302**	106,042
NET CURRENT ASSETS		**1,442,916**	1,509,830
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,569,865**	1,651,540
NET ASSETS		**1,569,865**	1,651,540
EQUITY			
Issued capital	30	**56,599**	56,599
Reserves	32(b)	**1,467,987**	1,549,662
Proposed final dividend	12	**45,279**	45,279
TOTAL EQUITY		**1,569,865**	1,651,540

Zhang Baowen
Director

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, 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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, 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 interpretations and amendments to HKFRSs for the first time for the current year's financial statements. The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

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

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July, 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 – *Group and Treasury Share Transactions*

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 buys 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. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

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

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July, 2009, other amendments are effective for annual periods beginning on or after 1 January, 2009 although there are separate transitional provisions for each standard.

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

[1] Effective for annual periods beginning on or after 1 January, 2009
[2] Effective for annual periods beginning on or after 1 July, 2009
[3] Effective for annual periods beginning on or after 1 July, 2008
[4] Effective for annual periods beginning on or after 1 October, 2008
[*] Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January, 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates and* HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January, 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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.

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

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January, 2009.

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. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January, 2009.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 15 will replace HK Interpretation 3 Revenue – *Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January, 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 18 provides guidance on the accounting for transfer of assets from customers. This includes clarification on (i) how should the transferred item of property, plant and equipment be measured on initial recognition; and (ii) if the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for. As the Group currently has no transactions of this nature, this interpretation is unlikely to have any financial impact on the Group.

In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January, 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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.

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 interests 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 interests 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 interests 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 interests 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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.

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 an 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 an 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.

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%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 least 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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.

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 an available-for-sale equity investment 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 ("market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 Company and the Group's subsidiaries which operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit 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.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 dates 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 overseas 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 overseas 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. The Group considers that the deferred tax assets are recognised to the extent that it is probable that the subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets at 31 December, 2008 was HK$17,076,000 (2007: HK$15,076,000). More details are given in note 29.

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, 2008 was HK$47,684,000 (2007: HK$44,322,000). More details are given in note 16.

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 estimation 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 29 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, 2008, the best estimate of the carrying amount of capitalised development costs was HK$35,955,000 (2007: HK$23,910,000).

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.

4. SEGMENT INFORMATION

The Group is principally engaged in one business segment, the development, manufacture and sale of medicines, and most of its operations and assets are located in Mainland China. Therefore, no business segment or geographical segment is presented.

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:

	2008 **HK$'000**	2007 HK$'000
Revenue		
Sale of goods	**2,272,788**	1,159,225
Dividend income	**9,425**	5,049
	2,282,213	1,164,274
Other income		
Bank interest income	**49,753**	81,273
Government grants*	**13,582**	14,891
Sale of scrap materials	**5,786**	1,223
Others	**1,097**	939
	70,218	98,326
Gains		
Fair value gains, net		
Equity investments at fair value through profit or loss – held for trading	**13,838**	–
Derivative instrument – transaction not qualifying as hedges	**10,849**	–
Gain on disposal of items of property, plant and equipment	**101**	41
	24,788	41
Total other income and gains	**95,006**	98,367

* 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	2008 HK$'000	2007 HK$'000
Cost of inventories sold		**473,245**	205,764
Depreciation	14	**39,894**	27,855
Recognition of prepaid land lease payments	15	**1,391**	726
Amortisation of other intangible assets*	17	**1,649**	1,106
Write off of other intangible assets*	17	**6,223**	200
Research and development costs		**87,578**	49,988
Impairment of available-for-sale investment (after a transfer from the available-for-sale investment revaluation reserve of a deficit of HK$9,979,000)		**25,522**	–
Revaluation deficit of property, plant and equipment		**1,026**	–
Minimum lease payments under operating leases:			
Land and buildings		**9,504**	4,889
Auditors' remuneration		**2,294**	1,062
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**195,421**	174,451
Pension scheme contributions		**7,466**	7,467
		202,887	181,918
Impairment of trade receivables	22	**1,314**	1,094
Foreign exchange differences, net		**(3,379)**	(198)

Notes:

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

7. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable with five years	**9,135**	2,575

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	
	2008	2007
	HK$'000	HK$'000
Fees	**440**	394
Other emoluments:		
Salaries, allowances and benefits in kind	**9,597**	8,720
Pension scheme contributions	**72**	82
Discretionary bonuses	**7,000**	4,783
	16,669	13,585
	17,109	13,979

(a) Independent non-executive directors

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

	2008	2007
	HK$'000	HK$'000
Mr. Lu Zhengfei	**150**	150
Mr. Li Dakui	**110**	100
Ms. Li Jun	**180**	144
	440	394

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

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	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
2008						
Mr. Tse Ping	–	4,940	5,100	–	12	10,052
Mr. Zhang Baowen	–	653	672	–	26	1,351
Mr. Tse Hsin	–	975	–	–	12	987
Ms. Cheng Cheung Ling	–	1,170	350	–	12	1,532
Mr. Tao Huiqi	–	851	878	–	10	1,739
Mr. He Huiyu	–	1,008	–	–	–	1,008
	–	9,597	7,000	–	72	16,669
2007						
Mr. Tse Ping	–	4,200	2,800	–	12	7,012
Mr. Zhang Baowen	–	346	780	–	22	1,148
Mr. Tse Hsin	–	936	–	–	12	948
Ms. Cheng Cheung Ling	–	1,105	300	–	12	1,417
Mr. Tao Huiqi	–	538	903	–	10	1,451
Mr. He Huiyu	–	1,008	–	–	–	1,008
Mr. Wang Jinyu	–	25	–	–	1	26
Ms. Zhao Yanping	–	562	–	–	13	575
	–	8,720	4,783	–	82	13,585

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

Subsequent to the year-end date, Mr. Xu Xiaoyang was appointed as executive director on 31 March, 2009.

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2007: five) directors, details of whose remuneration are set out in note 8 above.

10. TAX

Hong Kong profit tax has been provided at a rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year (2007: nil). 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.

	2008 HK$'000	2007 HK$'000
Group:		
Current – Hong Kong	**3,698**	–
Current – Mainland China income tax	**93,986**	41,002
Deferred tax (note 29)	**20,576**	(7,030)
Total tax charge for the year	**118,260**	33,972

The New PRC Corporate Income Tax Law (the "New CIT Law") (effective from 1 January, 2008 onwards) introduced a wide range of changes including, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% unless it is qualified as a "High and New Technology Enterprise" for which a more favourable effective corporate income tax rate of 15% is applied. Enterprises previously entitled to certain preferential tax rates will gradually move to the applicable corporate tax rate of 25% within five years from 2008.

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd., Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. and Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. were subject to a corporate income tax rate of 15% in 2008 because they qualified as a "High and New Technology Enterprise".

Pursuant to the transitional provisions of the New CIT Law, the applicable corporate tax rate of Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") is 18% in 2008. As NJCTT is entitled to a tax concession period between 2006 to 2010, NJCTT is entitled to a 50% tax exemption on full corporate income tax rate. Hence, NJCTT is subject to a corporate income tax rate of 9% in 2008.

Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd ("Fenghai") is qualified as a "High and New Technology Enterprise" in 2008. In addition, pursuant to the transition provisions of the New CIT Law, Fenghai is entitled to 50% tax exemption in 2008. Fenghai is subject to a corporate income tax rate of 12.5% in 2008 (being the lower of 12.5% (due to a 50% tax exemption) and a preferential tax rate of 15%).

Other than the above mentioned entities, the other entities located in PRC are subject to a corporate income tax rate of 25% in 2008.

10. TAX (continued)

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 – 2008	**Mainland China HK$'000**	**Hong Kong HK$'000**	**Total HK$'000**
Profit/(loss) before tax	**639,536**	**(39,273)**	**600,263**
Tax at the statutory tax rate	**159,884**	**(6,480)**	**153,404**
Less: preferential tax rate reduction	**(70,486)**	**–**	**(70,486)**
Income not subject to tax	**(1,088)**	**(3,366)**	**(4,454)**
Expenses not deductible for tax	**17,203**	**11,926**	**29,129**
Tax losses not recognised	**1,089**	**1,618**	**2,707**
Additional tax deduction	**(3,840)**	**–**	**(3,840)**
Tax exemptions/deductions	**(3,550)**	**–**	**(3,550)**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**–**	**15,350**	**15,350**
Tax charge at the Group's effective rate	**99,212**	**19,048**	**118,260**

Group – 2007	Mainland China HK$'000	Hong Kong HK$'000	Total HK$'000
Profit before tax	314,573	27,743	342,316
Tax at the statutory tax rate	103,809	4,855	108,664
Less: preferential tax rate reduction	(61,372)	–	(61,372)
Income not subject to tax	(125)	(4,855)	(4,980)
Expenses not deductible for tax	19,083	1,761	20,844
Tax losses not recognised	17	(1,761)	(1,744)
Additional tax deduction	(2,661)	–	(2,661)
Tax exemptions/deductions	(28,640)	–	(28,640)
Effect of changes in statutory tax rate	3,861	–	3,861
Tax charge at the Group's effective rate	33,972	–	33,972

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

The profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December, 2008 includes a profit of HK$44,268,000 (2007: a profit of HK$78,026,000) (note 32(b)) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Interim – HK$0.04 (2007: HK$0.04) per ordinary share	**90,560**	90,560
Proposed final – HK$0.02 (2007: HK$0.02) per ordinary share	**45,279**	45,279
	135,839	135,839

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 is based on the profit for the year attributable to ordinary equity holders of the parent for the year of HK$297,615,000 (2007: HK$224,353,000), and the number of 2,263,968,736 ordinary shares in issue during the year (2007: 2,263,968,736).

Diluted earnings per share amounts for the years ended 31 December, 2008 and 2007 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, 2008							
At 1 January, 2008:							
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
At 1 January, 2008, net of accumulated depreciation	165,065	–	92,704	13,113	21,046	47,472	339,400
Additions	718	–	21,176	10,287	9,419	149,458	191,058
Depreciation provided during the year	(9,566)	–	(16,467)	(5,178)	(8,683)	–	(39,894)
Surplus on revaluation	1,484	–	–	–	–	–	1,484
Acquisition of subsidiaries (note 33)	44,998	–	33,918	2,116	589	635	82,256
Disposals	(14)	–	(6,925)	(339)	(2,080)	–	(9,358)
Transfers	14,026	–	5,403	–	878	(20,307)	–
Exchange realignment	7,908	–	6,288	746	1,339	2,875	19,156
At 31 December, 2008, net of accumulated depreciation	224,619	–	136,097	20,745	22,508	180,133	584,102
At 31 December, 2008:							
Cost or valuation	224,619	7,819	236,885	41,728	56,496	180,133	747,680
Accumulated depreciation	–	(7,819)	(100,788)	(20,983)	(33,988)	–	(163,578)
Net carrying amount	224,619	–	136,097	20,745	22,508	180,133	584,102
Analysis of cost or valuation:							
At cost	–	7,819	236,885	41,728	56,496	180,133	523,061
At valuation	224,619	–	–	–	–	–	224,619
	224,619	7,819	236,885	41,728	56,496	180,133	747,680

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, 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	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)

Company

	Buildings HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December, 2008					
At 1 January, 2008:					
Cost	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
At 1 January, 2008, net of accumulated depreciation	1,595	3,179	1,342	–	6,116
Additions	–	519	653	–	1,172
Depreciation provided during the year	(26)	(1,341)	(910)	–	(2,277)
Deficit on revaluation	(188)	–	–	–	(188)
Exchange realignment	30	155	159	–	344
At 31 December, 2008, net of accumulated depreciation	1,411	2,512	1,244	–	5,167
At 31 December, 2008:					
Cost or valuation	1,411	8,134	4,230	–	13,775
Accumulated depreciation	–	(5,622)	(2,986)	–	(8,608)
Net carrying amount	1,411	2,512	1,244	–	5,167
Analysis of cost or valuation:					
At cost	–	8,134	4,230	–	12,364
At valuation	1,411	–	–	–	1,411
	1,411	8,134	4,230	–	13,775

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 or 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

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

As at 31 December, 2008, the Group has not obtained the Realty Building Title to a building in Qingdao, China. The market value of the building amounted to HK$28,281,000 as at 31 December, 2008. The Group had subsequently obtained the Realty Building Title in March 2009.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's buildings as at 31 December, 2008 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK$224,619,000 (2007: HK$165,065,000) based on their existing use. The revaluation resulted in a surplus of HK$2,510,000 (2007: HK$10,009,000) and a deficit of HK$1,026,000 (2007: nil). The Group has credited HK$1,793,000 (2007: a credit of HK$5,235,000) to the revaluation reserve in the current year. The Group has charged HK$1,026,000 to the income statement in the current year (2007:nil).

Had the buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$182,770,000 (2007: HK$134,160,000).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**30,156**	16,872
Acquisition of subsidiaries (note 33)	**26,261**	12,015
Additions during the year	**24,171**	234
Recognised during the year	**(1,391)**	(726)
Exchange realignment	**2,144**	1,761
Carrying amount at 31 December	**81,341**	30,156
Current portion included in prepayments, deposits and other receivables	**(1,834)**	(874)
Non-current portion	**79,507**	29,282

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 a net book value of approximately HK$11,812,000 has been pledged to secure the bank borrowings granted to the Group (note 27).

16. GOODWILL

Group

	HK$'000
31 December, 2008	
Cost and carrying amount at 1 January, 2008	**44,322**
Acquisition of subsidiaries (note 33)	**3,208**
Exchange realignment	**154**
Cost and carrying amount at 31 December, 2008	**47,684**

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

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 six different cash-generating units ("CGUs"), namely Beijing Tide, a jointly-controlled entity and five subsidiaries of the Group. Approximately 78% 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 these CGUs 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 these CGUs. 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, 2008			
Cost:			
At 1 January, 2008	8,686	24,288	32,974
Additions	5,701	13,998	19,699
Written off during the year	(2,914)	(3,309)	(6,223)
Exchange realignment	959	1,478	2,437
At 31 December, 2008	12,432	36,455	48,887
Accumulated amortisation:			
At 1 January, 2008	2,792	378	3,170
Provided during the year	1,553	96	1,649
Exchange realignment	222	26	248
At 31 December, 2008	4,567	500	5,067
Net carrying amount	7,865	35,955	43,820

	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

18. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	Company 2007 HK$'000
Unlisted shares, at cost	**101,519**	101,519
Due from subsidiaries	**145,932**	235,601
Due to subsidiaries	**(48,215)**	(100,173)
	199,236	236,947
Impairment during the year	**–**	–
	199,236	236,947

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	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	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		Principal activities
			Direct	Indirect	
Jiangsu Chia Tai -Tianqing Pharmaceutical Co., Ltd.	Mainland China	RMB131,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	60	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	Mainland China	US$5,050,000	–	55.6	Development, manufacture and distribution 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 Limited	Hong Kong	HK$2 Ordinary	100	–	Property holding
Fine Enterprise Investment Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Sino Biopharmaceutical (Tianjin) Limited	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	RMB48,960,000	–	55.6	Manufacture and sale of pharmaceutical products
Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd.	Mainland China	US$9,363,500	–	30.6	Development, manufacture and distribution of pharmaceutical products
Yancheng Suhai Pharmaceutical Co., Ltd. ("Suhai")	Mainland China	RMB9,281,900	–	30.6	Manufacture and sale of Pharmaceutical products
Chia Tai Wing Fuk Limited ("CTWF")	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Qingdao Chia Tai Haier Pharmaceutical Co., Ltd.	Mainland China	US$7,560,000	–	51	Development, manufacture and distribution of pharmaceutical products
Qingdao Heng Seng Tang Pharmacy Co., Ltd.	Mainland China	RMB1,250,000	–	51	Retail of pharmaceutical products
Qingdao Haier Medicines Co., Ltd.	Mainland China	RMB5,000,000	–	51	Sale 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
Talent Forward Limited (香港俊領有限公司)	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Sino Biopharmaceutical (Beijing) Limited (中國生物製藥(北京)有限公司)	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Champion First Investments Limited (第一投資有限公司)	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited (正大醫藥(連雲港)有限公司)	Hong Kong	HK$1 Ordinary	100	–	Investment holding

On 31 December, 2007, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Chia Tai Pharmaceutical (Lianyungang) Company Limited in Hong Kong.

On 31 December, 2007, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Sino Biopharmaceutical (Beijing) Limited in Hong Kong.

On 31 December, 2007, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Talent Forward Limited in Hong Kong.

On 31 December, 2007, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Champion First Investments Limited in Hong Kong.

On 14 January, 2008, JCTT, through the injection of capital into Fenghai and Suhai, owned a 50.98% equity interest in Fenghai and Suhai. Details are set out in the Company's announcement dated 9 November, 2007.

On 5 May, 2008, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, CTWF in Hong Kong.

On 1 September, 2008, CTWF, through the acquisition of equity interests from the existing equity holders, has completed the acquisition of a 51% equity interest in Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. (which holds 100% equity interests in Qingdao Heng Seng Tang Pharmacy Co., Ltd. and Qingdao Haier Medicines Co., Ltd.) (collectively defined as "Qingdao Haier"). Details are set out in the Company's announcement dated 8 July, 2008.

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 a 35% equity interest therein. Beijing Tide is registered in the PRC with registered capital of RMB65,509,000. The Group's percentage of voting power and percentage of profit sharing is equivalent to its equity interest. The principal activities of Beijing Tide are the manufacture and sale of pharmaceutical products.

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

	2008 HK$'000	2007 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	185,993	140,263
Non-current assets	58,328	55,768
Current liabilities	(25,512)	(25,037)
Net assets	218,809	170,994
Share of the jointly-controlled entity's results:		
Turnover	256,155	176,394
Other revenue	548	–
Total revenue	256,703	176,394
Total expenses	(111,532)	(77,930)
Tax	(25,896)	(11,485)
Profit after tax	119,275	86,979

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Listed equity investments, at fair value:				
Hong Kong	20,263	34,075	20,263	34,075
	20,263	34,075	20,263	34,075
Unlisted equity investments, at cost	29,820	29,820	–	–
	50,083	63,895	20,263	34,075

There has been a significant decline in the market value of the listed equity investments during the year. The directors consider that such a decline indicates that the listed equity investments have been impaired and an impairment loss of HK$25,522,000 (2007: Nil), which included a transfer from the available-for-sale investment revaluation reserve of HK$9,979,000 (2007: Nil), has been recognised in the income statement for the year.

20. AVAILABLE-FOR-SALE INVESTMENTS (continued)

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 Group has disposed its listed equity investments on 27 March, 2009.

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.

21. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**62,464**	21,969
Work in progress	**57,914**	25,713
Finished goods	**64,585**	22,207
Spare parts and consumables	**281**	236
	185,244	70,125

22. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**365,721**	207,585
Impairment	**(6,433)**	(7,834)
	359,288	199,751

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 ranges 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.

22. TRADE RECEIVABLES (continued)

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	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	357,232	161,477
91 days to 180 days	1,322	35,109
Over 180 days	734	3,165
	359,288	199,751

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	7,834	6,243
Impairment losses recognised (note 6)	(1,314)	1,094
Amount written off as uncollectible	(553)	–
Exchange realignment	466	497
	6,433	7,834

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

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	339,927	186,075
Less than 30 days past due	12,602	7,191
Between 31 to 90 days past due	4,758	4,584
Between 91 to 180 days past due	1,277	1,008
Between 181 days to 365 days past due	724	893
	359,288	199,751

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 approximates to their fair value due to their relatively short maturity term.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**12,106**	6,970	**–**	476
Other receivables	**21,571**	17,735	**2,669**	6,285
Prepaid expenses	**1,308**	659	**1,078**	–
Current portion of prepaid land lease payments	**1,834**	874	**–**	–
	36,819	26,238	**3,747**	6,761

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.

24. CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances, unrestricted	**714,885**	265,107	**391,984**	58,442
Time deposits with original maturity of less than three months	**1,079,842**	1,415,180	**968,353**	1,283,005
Time deposits with original maturity of more than three months	**80,278**	95,464	**5,202**	32,063
Cash and bank balances	**1,875,005**	1,775,751	**1,365,539**	1,373,510

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$427,089,000 (2007: HK$373,235,000). 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 banks earns interest at floating rates based on daily bank deposit 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.

25. 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	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**70,621**	33,032
91 days to 180 days	**1,901**	2,288
Over 180 days	**1,891**	847
	74,413	36,167

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.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances from customers	**9,905**	4,907	**–**	–
Accrued payroll and bonus	**98,844**	57,495	**15,499**	2,147
Other payables	**121,800**	72,988	**3,539**	1,316
Accrued expenses	**81,609**	58,553	**1,259**	2,259
Housing fund	**1,084**	548	**–**	–
Staff welfare and bonus fund	**24,621**	15,204	**8**	8
Tax payable other than profits tax	**30,467**	17,913	**84**	139
	368,330	227,608	**20,389**	5,869

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.

27. INTEREST-BEARING BANK BORROWINGS

Group

	2008			2007		
	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	5.022%-6.723%	2009	102,222	6.73%	2008	21,376
			102,222			36,980
Non-current						
Bank loans – unsecured			–	7.56%	2009	21,376
			102,222			58,356
Analysed into:						
Bank loans repayable:						
Within one year or on demand			102,222			36,980
In the second year			–			21,376
			102,222			58,356

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

As at 31 December, 2007, the Group's secured bank borrowings were secured by the pledge of certain of the Group's land use rights and buildings, which have an aggregate carrying value of HK$28,091,000.

The Group's bank borrowings (current) bear interest at fixed rates ranging from 5.022% to 6.723% per annum during the year (2007: 6.48%-7.29%).

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

28. 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.

29. DEFERRED TAX

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

Deferred tax liabilities

Group

2008

	Development costs HK$'000	Revaluation of properties HK$'000	Withholding taxes HK$'000	Total HK$'000
At 1 January, 2008	5,030	8,963	–	13,993
Deferred tax charged to the income statement (note 10)	5,483	165	15,350	20,998
Acquisition of subsidiaries (note 33)	–	6,109	–	6,109
Deferred tax debited to equity during the year	–	516	–	516
Gross deferred tax liabilities at 31 December, 2008	10,513	15,753	15,350	41,616

Deferred tax assets

Group

2008

	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, 2008	891	168	1,368	12,649	15,076
Acquisition of subsidiaries (note 33)	–	9	207	1,362	1,578
Deferred tax (charged)/credited to the income statement during the year (note 10)	(891)	(160)	(365)	1,838	422
Gross deferred tax assets at 31 December, 2008	–	17	1,210	15,849	17,076

29. DEFERRED TAX (continued)

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2008 HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	3,405
Net deferred tax liabilities recognised in the consolidated balance sheet	(27,945)
	(24,540)

Deferred tax liabilities

Group

2007

	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	–	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

2007

	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	–	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

29. DEFERRED TAX (continued)

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2007 HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	1,511
Net deferred tax liabilities recognised in the consolidated balance sheet	(428)
	1,083

As at 31 December, 2007 and 2008, the Group has no tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January, 2008 and applies to earnings after 31 December, 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and a jointly-controlled entity established in Mainland China in respect of earnings generated from 1 January, 2008.

30. SHARE CAPITAL

Shares

	2008 **HK$'000**	2007 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.025 each (2007: 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 (2007: 2,263,968,736 ordinary shares of HK$0.025 each)	**56,599**	56,599

31. 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 10 years commencing from 26 April, 2002. On approval by the Stock Exchange for the 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.

(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.

31. SHARE OPTION SCHEMES (continued)

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

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 a 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.

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 share 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.

32. 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 the 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, the enterprise expansion fund and the 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 the 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.

32. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
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 paid	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
Balance at 1 January, 2008		**281,846**	**60,464**	**83**	**(9,979)**	**1,217,248**	**1,549,662**
Profit for the year	11	**–**	**–**	**–**	**–**	**44,268**	**44,268**
Deficit on revaluation of buildings		**–**	**–**	**(83)**	**–**	**–**	**(83)**
Impairment of available for-sale investments taken to the income statement		**–**	**–**	**–**	**9,979**	**–**	**9,979**
Interim 2008 dividend paid	12	**–**	**–**	**–**	**–**	**(90,560)**	**(90,560)**
Proposed final 2008 dividend	12	**–**	**–**	**–**	**–**	**(45,279)**	**(45,279)**
At 31 December, 2008		**281,846**	**60,464**	**–**	**–**	**1,125,677**	**1,467,987**

33. BUSINESS COMBINATION

Acquisition of subsidiaries

On 14 January, 2008, JCTT, through the injection of capital into Fenghai and Suhai, owned a 50.98% equity interest in Fenghai and Suhai. Details are set out in the Company's announcement dated 9 November, 2007. The purchase consideration of RMB48,404,000 (equivalent to HK$51,734,000) for Fenghai and RMB6,550,000 (equivalent to HK$7,001,000) for Suhai was in the form of cash.

On 1 September, 2008, CTWF, through the acquisition of equity interests from the existing equity holders, owned a 51% equity interest in Qingdao Haier. Details are set out in the Company's announcement dated 8 July, 2008. The purchase consideration of RMB38,250,000 (equivalent to HK$43,655,000) was in the form of cash.

The fair values of the identifiable assets and liabilities of Fenghai, Suhai and Qingdao Haier as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

Fenghai

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Property, plant and equipment	14	27,215	26,204
Prepaid land lease payments	15	11,618	6,953
Cash and bank balances		61,364	61,364
Inventories		11,060	11,060
Trade receivables		25,740	25,740
Prepayments, deposits and other receivables		3,666	3,666
Due from related companies		18,963	18,963
Trade payables		(9,471)	(9,471)
Other payables and accruals		(23,976)	(23,976)
Tax payables		(1,156)	(1,156)
Dividend payable		(24,063)	(24,063)
Deferred tax liabilities (net)	29	(357)	–
		100,603	95,284
Attributable to:			
The Group		51,287	
Minority interests		49,316	
		100,603	
The Group's share of net assets		51,287	
Goodwill on acquisition	16	447	
		51,734	
Satisfied by:			
Satisfied by cash		51,734	

33. BUSINESS COMBINATION (continued)

Acquisition of subsidiaries (continued)

Suhai

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Property, plant and equipment	14	5,858	5,606
Prepaid land lease payments	15	1,176	389
Cash and bank balances		13,160	13,160
Inventories		11,648	11,648
Trade receivables		14,028	14,028
Prepayments, deposits and other receivables		1,853	1,853
Due to related companies		(18,188)	(18,188)
Trade payables		(3,665)	(3,665)
Other payables and accruals		(9,376)	(9,376)
Tax payables		(109)	(109)
Dividend payable		(3,025)	(3,025)
Deferred tax liabilities (net)	29	(246)	–
		13,114	12,321
Attributable to:			
The Group		6,686	
Minority interests		6,428	
		13,114	
The Group's share of net assets		6,686	
Goodwill on acquisition	16	315	
		7,001	
Satisfied by:			
Satisfied by cash		7,001	

33. BUSINESS COMBINATION (continued)

Acquisition of subsidiaries (continued)

Qingdao Haier

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment	14	49,183	41,324
Prepaid land lease payments	15	13,467	2,156
Cash and bank balances		26,188	26,188
Inventories		4,723	4,723
Trade receivables		15,159	15,159
Prepayments, deposits and other receivables		1,157	1,157
Trade payables		(12,996)	(12,996)
Other payables and accruals		(10,384)	(10,384)
Tax payables		(1,767)	(1,767)
Deferred tax liabilities (net)	29	(3,928)	–
		80,802	65,560
Attributable to:			
The Group		41,209	
Minority interests		39,593	
		80,802	
The Group's share of net assets		41,209	
Goodwill on acquisition	16	2,446	
		43,655	
Satisfied by:			
Satisfied by cash		43,655	

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

	HK$'000
Cash consideration	(102,390)
Cash and bank balances acquired	
– Fenghai	61,364
– Suhai	13,160
– Qingdao Haier	26,188
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(1,678)

34. 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,517**	2,516	**4,765**	1,222
In the second to fifth years, inclusive	**8,996**	4,972	**3,752**	–
After five years	**30,570**	23,027	**–**	–
	46,083	30,515	**8,517**	1,222

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	**96,780**	2,189
– Capital contributions in respect of a joint venture company (see below)	**722,400**	722,400
– Proposed investments (note 36(b)(vi))	**–**	56,127
	819,180	780,716
Authorised, but not contracted for:		
– Plant and machinery	**39,930**	5,465

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 a 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 as at 31 December, 2008 (the formation of the joint venture company is still pending the formal approval of the relevant government authorities).

35. COMMITMENTS (continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for:		
– Plant and machinery	–	1,666

36. 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 year:

	Group	
	2008	2007
	HK$'000	HK$'000
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary (note (a))	6,623	2,802
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note (a))	–	1,410
Operating lease rentals payable to:		
– a Chinese joint venture partner of a subsidiary (note (b))	668	611
– a company beneficially owned by directors (note (b))	4,177	780
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note (b))	–	770

Notes:

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

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

36. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties

(i) On 9 November, 2007, NJCTT entered into a master supply agreement to supply to Tianqing cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines from 1 January, 2008 to 31 December, 2010 (the "New NJCTT Master Supply Agreement"). The terms of the New NJCTT Master Supply Agreement are to be determined by reference to the prevailing market prices of and demand for cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines in the PRC and no less favourable to Tianqing than those available to Tianqing from independent third parties. The New NJCTT Master Supply Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the agreement on the New NJCTT Master Supply Agreement are set out in the Company's announcement dated 9 November, 2007. The sales of goods by NJCTT to Tianqing of the year amounted to HK$13,426,000 (2007: HK$6,169,000) and have been eliminated on consolidation.

(ii) On 9 November, 2007, Fenghai entered into a master supply agreement to supply to Tianqing anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines from 1 January, 2008 to 31 December, 2010 (the "New Jiangsu Fenghai Master Supply Agreement"). The terms of the New Jiangsu Fenghai Master Supply Agreement are to be determined by reference to the prevailing market prices of and demand for cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines in the PRC and no less favourable to Tianqing than those available to Tianqing from independent third parties. The New Jiangsu Fenghai Master Supply Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the agreement on the New Jiangsu Fenghai Master Supply Agreement are set out in the Company's announcement dated 9 November, 2007. The sales of goods by Fenghai to Tianqing of the year amounted to HK$2,797,000 (2007: HK$1,410,000) and have been eliminated on consolidation.

(iii) On 23 December, 2005, CTGC entered into an agreement with 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 Fenghai (the "Jiangsu Fenghai Technology Services Agreement"). The terms of the Jiangsu Fenghai Technology Services Agreement are to be determined by reference to the prevailing market prices and no more favourable to Fenghai than those offered to independent third parties. Fenghai was then 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. Fenghai is a connected party as defined in Chapter 14A of the Listing Rules. Details of the Fenghai Technology Services Agreement are set out in the Company's press announcement dated 4 January, 2006.

On 24 September, 2008, CTGC entered into a new agreement with Fenghai for CTGC to provide technology development services for certain pharmaceutical products for a term of three years from 1 January, 2009 to 31 December, 2011 to Fenghai (the "New Jiangsu Fenghai Technology Services Agreement"). The terms of the New Jiangsu Fenghai Technology Services Agreement 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. Details of the New Jiangsu Fenghai Technology Services Agreement are set out in the Company's announcement dated 24 September, 2008.

There are no transactions arising from the Jiangsu Fenghai Technology Services Agreement in 2008 (2007: nil).

36. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

(iv) On 23 December, 2005, JCTT and Jiangsu State Agribusiness Commercial Commodities Limited ("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 party and the Master Purchase Agreement constitutes 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.

On 24 September, 2008, JCTT and Jiangsu Agribusiness entered into a new master purchase agreement for JCTT's purchase of coal from Jiangsu Agribusiness for a term of three years from 1 January, 2009 to 31 December, 2011 (the "New Master Purchase Agreement"). The terms of the New 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. Details of the revision was set out in the Company's announcement dated 24 September, 2008.

The purchase of raw materials from Jiangsu Agribusiness for the year amounted to HK$6,623,000 (2007: HK$2,802,000), and has been disclosed in note 36(a) under "Purchases of raw materials from a Chinese joint venture partner of a subsidiary".

(v) On 17 April, 2008, the Company entered into a tenancy agreement (the "Tenancy Agreement") with Billion Source Holdings Limited ("Billion Source") to lease from Billion Source the premises at 31st Floor, Building No. 1A, G.T. International Center, Jia 3 Yongandongli, Jianguomenwai Dajie, Chaoyang District, Beijing, PRC for a term of three years from 1 January, 2008 to 31 December, 2010. The terms of the tenancy are to be determined by reference to the prevailing market prices and no more favourable to the Company than those offered to independent third parties. Billion Source is company beneficially owned by two directors. Billion Source is a connected party as defined in Chapter 14A of the Listing Rules. Details of the Tenancy Agreement are set out in the Company's announcement dated 17 April, 2008.

The rental fee paid to Billion Source for the year amounted to HK$3,376,000 (2007: nil), and has been disclosed in note 36(a) under "Operating lease rentals payable to a company beneficially owned by directors".

36. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

(vi) On 9 November, 2007, JCTT entered into a joint venture contract, new articles of association and capital increase agreement with Ace Elite Investments Limited ("Ace Elite"), Jiangsu State Agribusiness Group Corporation Ltd. ("Jiangsu Agribusiness Group") and Da Feng Hang Chang Consultation Centre ("Da Feng Hang Chang") to invest in a company, Fenghai. Pursuant to the said agreements, JCTT would 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 Fenghai and the remaining would be contributed to the capital reserve of Fenghai in cash within 30 working days after the business licence of Fenghai has been obtained from the relevant PRC approval authorities. Details of the agreement is set out in the Company's announcement dated 9 November, 2007.

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

The above transactions have been completed on 14 January, 2008.

(c) Outstanding balances with related parties

(i) As disclosed in the consolidated balance sheet, the Group had trade and other payables to its Chinese joint venture partners of HK$5,506,000, (2007: HK$4,553,000) and trade receivables from its Chinese joint venture partners of HK$2,423,000 (2007: HK$2,020,000). 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 represents a loan borrowed from its Chinese joint venture partner of HK$5,781,000 (2007: HK$8,841,000). This amount was unsecured and bears interest at a rate of 5.31% per annum.

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

37. 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments	**–**	–	**50,083**	63,895
Trade receivables	**359,288**	199,751	**–**	–
Financial assets included in prepayments,			**–**	–
deposits and other receivables	**21,571**	17,735	**–**	–
Due from related companies	**2,423**	2,020	**–**	–
Cash and bank balances	**1,875,005**	1,775,751	**–**	–
	2,258,287	1,995,257	**50,083**	63,895

	Company			
	Loans and receivables		Available-for-sale financial assets	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments	**–**	–	**20,263**	34,075
Financial assets included in prepayments, deposits and other receivables	**2,669**	6,285	**–**	–
Due from subsidiaries	**145,932**	235,601	**–**	–
Cash and bank balances	**1,365,539**	1,373,510	**–**	–
	1,514,140	1,615,396	**20,263**	34,075

Financial liabilities

	Financial liabilities at amortised cost			
	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**74,413**	36,167	**–**	–
Financial liabilities included in other payables and accruals	**121,800**	72,988	**3,539**	1,316
Interest-bearing bank and other borrowings	**102,222**	58,356	**–**	–
Due to related companies	**11,287**	13,394	**–**	–
Due to subsidiaries	**–**	–	**48,215**	100,173
	309,722	180,905	**51,754**	101,489

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank 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.

The Group also enters into derivatives transactions including principally forward currency contracts.

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) Basis point	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
2008			
Renminbi-denominated borrowings	**50**	**(511)**	**(434)**
Renminbi-denominated borrowings	**(50)**	**511**	**434**
2007			
Renminbi-denominated borrowings	50	(292)	(239)
Renminbi-denominated borrowings	(50)	292	239

38. 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 authorised 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 exchange rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
2008			
If Hong Kong dollar weakens against Renminbi	**5**	**–**	**66,689**
If Hong Kong dollar strengthens against Renminbi	**(5)**	**–**	**(66,689)**
2007			
If Hong Kong dollar weakens against Renminbi	5	–	36,136
If Hong Kong dollar strengthens against Renminbi	(5)	–	(36,136)

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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's liquidity remains strong as at the 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 contractual undiscounted payments, is as follows:

Group

2008

	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	–	22,716	79,506	–	102,222
Trade payables	3,012	71,401	–	–	74,413
Other payables and accruals	21,030	54,089	46,681	–	121,800
Due to related companies	1,370	4,136	5,781	–	11,287
	25,412	152,342	131,968	–	309,722

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
Other payables and accruals	51,060	20,165	1,763	–	72,988
Due to related companies	4,194	359	–	8,841	13,394
	62,249	47,069	41,370	30,217	180,905

Company

	2008		2007	
	On demand HK$'000	Total HK$'000	On demand HK$'000	Total HK$'000
Other payables and accruals	3,539	3,539	1,316	1,316
Due to subsidiaries	48,215	48,215	100,173	100,173
	51,754	51,754	101,489	101,489

38. 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 20) as at 31 December, 2008. 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.

	Carrying amount of equity investments HK$'000	Increase/ (decrease) in equity HK$'000
2008		
Investments listed in Hong Kong – Available-for-sale	**20,263**	**203/(203)**
2007		
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 shareholders 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 for managing capital during the years ended 31 December, 2008 and 31 December, 2007.

39. POST BALANCE SHEET EVENTS

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 32).

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March, 2009.

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 Monday, 8 June, 2009 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, 2008;

2. To approve the payment of a final dividend for the year ended 31 December, 2008;

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;

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."; and

6. As special business, to consider, and, if thought fit, pass with or without amendments the following Resolution as a Special Resolution:

SPECIAL RESOLUTION

"**THAT** the articles of association of the Company be amended as follows:

(A) Article 2

(1) By inserting the following new definition of "business day(s)" in Article 2 immediately before the existing definition of "capital":

""business day(s)" any day on which the Designated Stock Exchange is open for the business of dealing in securities. For the avoidance of doubt, where the Designated Stock Exchange is closed for business in dealing in securities in Hong Kong at any time on a business day for the reason of a number 8 or higher typhoon signal, black rainstorm warning or other similar event, such day shall for the purposes of these Articles, be counted as a business day.".

(2) By replacing the existing definitions of "ordinary resolution" and "special resolution" with the following respective definitions in Article 2:

""ordinary resolution" a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which Notice has been duly given in accordance with Article 59."; and

""special resolution" a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which Notice has been duly given in accordance with Article 59; a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.".

(B) Article 59

By deleting paragraph (1) of Article 59 in its entirety and substituting therefor the following:

"59. (1) An annual general meeting shall be called by Notice of not less than a period which is the longer of twenty-one (21) clear days and twenty (20) clear business days, any extraordinary general meeting called for the passing of a special resolution shall be called by Notice of not less than a period which is the longer of twenty-one (21) clear days and ten (10) clear business days, and any other extraordinary general meeting shall be called by Notice of not less than a period which is the longer of fourteen (14) clear days and ten (10) clear business days. A general meeting may be called by shorter notice, if so permitted by the Designated Stock Exchange and subject to the Law, if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and

(b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.".

(C) Article 66

By deleting Article 66 in its entirety and substituting therefor the following:

"66. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. At any general meeting a resolution put to the vote of the meeting shall be decided by poll.".

(D) Article 66A

By deleting Article 66A in its entirety and replacing it with the words "Intentionally Omitted".

(E) Article 67

By deleting Article 67 in its entirety and replacing it with the words "Intentionally Omitted".

(F) Article 69

By deleting Article 69 in its entirety and replacing it with the words "Intentionally Omitted".

(G) Article 70

By deleting Article 70 in its entirety and replacing it with the words "Intentionally Omitted".

(H) Article 71

By deleting Article 71 in its entirety and substituting therefor the following:

"71. At any general meeting a resolution put to the vote of the meeting, votes may be given either personally or by proxy.".

(I) Article 72

By replacing "on a poll" in Article 72 by "at any general meeting".

(J) Article 73

By deleting the second sentence of Article 73 in its entirety and substituting therefor the following:

"In the case of an equality of votes, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.".

(K) Article 75

By deleting paragraph (1) of Article 75 in its entirety and substituting therefor the following:

"75. (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote at any general meeting, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting, as the case may be.".

(L) Article 80

By deleting Article 80 in its entirety and substituting therefor the following:

"80. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.".

(M) Article 81

By deleting Article 81 in its entirety and substituting therefor the following:

"81. Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.".

(N) Article 82

By deleting ", or the taking of the poll," from Article 82 immediately after the words "adjourned meeting".

(O) Article 84

By deleting the words "including the right to vote individually on a show of hands" at the end of paragraph (2) of Article 84."

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

Hong Kong, 22 April, 2009

As at the date of this notice, the Board comprises seven executive Directors, namely Mr. Tse Ping, Mr. Zhang Baowen, Mr. Xu Xiaoyang, Mr. Tse Hsin, Ms. Cheng Cheung Ling, Mr. Tao Huiqi and Mr. He Huiyu 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, 5 June, 2009 to Monday, 8 June, 2009 (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, 4 June, 2009 for registration.

4. A circular containing further details regarding the Resolutions set out as Resolutions 5 and 6 will be sent to the Shareholders together with the annual report of the Company for the year ended 31 December, 2008.