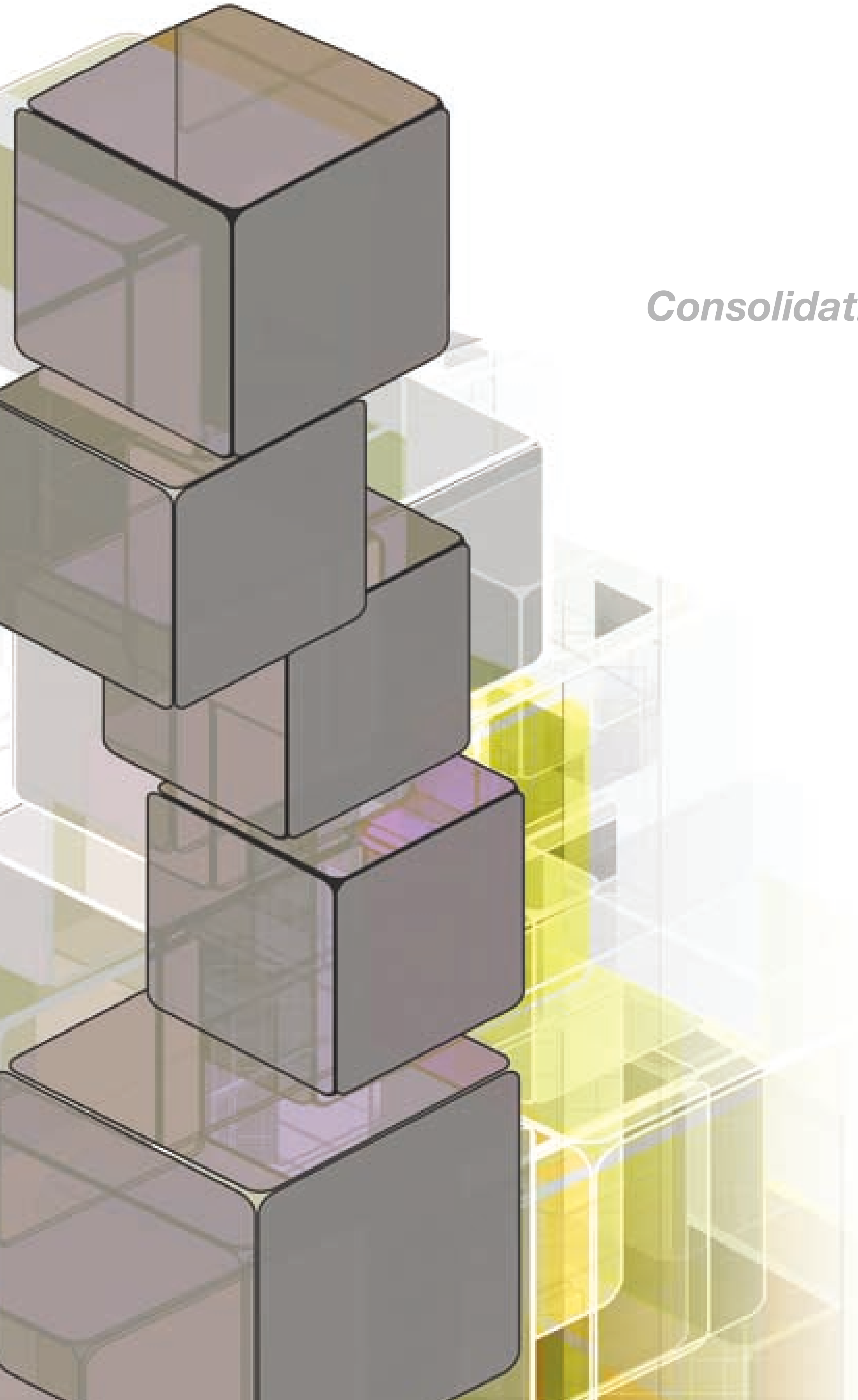
WING SHAN INTERNATIONAL LIMITED
榮山國際有限公司

(股份代號: 0570)



Consolidation and Growth

2008
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Director

DU Richeng *(Chairman)*

Executive Directors

YANG Bin *(Executive Director & Managing Director appointed on 6 February 2009 & 11 February 2009 respectively)*
SITU Min *(Chief Financial Officer & Qualified Accountant)*
LI Songquan *(Deputy Managing Director)*

Independent Non-executive Directors

LO Wing Yat *(appointed on 11 February 2009)*
PANG Fu Keung *(appointed on 11 February 2009)*

COMPANY SECRETARY

HUEN Po Wah

AUDIT COMMITTEE

PANG Fu Keung *(Chairman) (appointed on 11 February 2009)*
LO Wing Yat *(appointed on 11 February 2009)*

REMUNERATION COMMITTEE

LO Wing Yat *(Chairman) (appointed on 11 February 2009)*
DU Richeng
PANG Fu Keung *(appointed on 11 February 2009)*

REGISTERED OFFICE

Rooms 2801-2805
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

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Fax: (852) 2544 1269
Email: publicrelation@wingshan.com.hk

STOCK CODE

The shares of Wing Shan International Limited are listed on The Stock Exchange of Hong Kong Limited

Stock Code: 00570

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong & Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited

WEBSITE

http://www.wingshan.com.hk

On behalf of the Board of Directors (the "Board") of Wing Shan International Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2008.

MARKET OVERVIEW

China, in terms of both its healthcare system and pharmaceutical industry, is a land of promises and challenges. With its ageing population, consistent double-digit pharmaceutical industry growth in the past two decades and ongoing healthcare reform, China offers market players a vast array of opportunities.

After a year of remarkable growth in 2007, the pharmaceutical industry in China is delivering another impeccable performance during the year under review. Revenue of the pharmaceutical manufacturing sector rose over 25% while its total profit also jumped by over 25% during January to November 2008 compared with the corresponding period in 2007, according to National Bureau of Statistics of China.

Mr. Wen Jiabao, the China Premier, said in January 2009 that China will strive to improve the country's healthcare system to make healthcare more accessible and affordable. The Central Government published a long awaited medical reform plan on 6 April 2009 which promised to spend RMB850 billion by 2011 to provide universal medical to the country's 1.3 billion population. The principle of the reform is to establish a healthcare system that provides safe, effective, convenient and low cost public health and basic medical services for all urban and rural residents. More specifically, the reform will expand the coverage of medical insurance, increase the amount of rural and urban population covered by the basic medical insurance system or the new rural cooperative medical system to at least 90 percent by 2011 and build a basic medicine system that includes a catalogue of drugs that mostly needed by the public.

BUSINESS REVIEW

During the year under review, the Group recorded a turnover of approximately HK$443.53 million for the year ended 31 December 2008, representing an increase of approximately 24.6% over the previous year and profit attributable to equity shareholders was approximately HK$20.33 million and basic earnings per share was approximately HK2.45 cents. The growth in turnover and profit attributable to shareholders was mainly due to the increased selling price of our major products and the continuing appreciation of Renminbi against Hong Kong dollars.

Drawing on the successful experience of our business restructuring in late 2006, when the Group acquired the existing Chinese medicine business and disposed of its then loss making electricity generation business, the Board took advantage of the favourable environment of pharmaceutical industry and conducted an acquisition to seize on the growth opportunities.

The Board announced that on 29 November 2008, the Company entered into an agreement with Sureplan Limited to acquire the entire issued capital of Smartpoint International Limited and its subsidiaries at a consideration of HK$300 million (the "Acquisition"). The Acquisition, the details of which are set out in the Company circular dated 31 December 2008, was completed on 6 February 2009. The operating subsidiaries of Smartpoint International Limited are 廣東環球製藥有限公司(Guangdong Medi-World) and 山東魯抗醫藥集團魯亞有限公司(Luya), collectively called as 廣東環球製藥集團(the Guangdong Medi-World Group). The results of Smartpoint International Limited and the Guangdong Medi-World Group will be reflected in the Group's consolidated accounts in 2009.

The Acquisition not only enables the Group to extend its product lines from traditional Chinese medicines to higher-end drugs, but also facilitates an integration of internal operational resources which ensures efficient management and competitive advantage of the Group.

BUSINESS REVIEW (Continued)

Currently, the Guangdong Medi-World Group owns over 80 approved products registration certificates, of which principal products include:

1. Nifedipine Sustained-release Tablet (硝苯地平緩釋片(聖通平)) which is a chemical drug used to sooth high blood pressure and cardiac neuralgia,
2. Yupingfeng Granule (玉屏風顆粒) which is a Chinese medicine used to strengthen immunity system,
3. Qiye Shen'an Tablet (七葉神安片) which is a drug extracted from plant used to sooth a wide range of syndrome including insomnia, heartburn or tumor etc,
4. Cefodizime Sodium for injection (注射用頭孢地嗪鈉(高德)) which is a chemical drug used as antibiotics,
5. Group A Streptococcus (A群鏈球菌製劑(沙培林)) which is a chemical drug used to control and prevent cancer cells.

In addition, it has obtained 2 patented new drugs pending approval for registration and 7 patent applications in process. Furthermore, 3 of the Guangdong Medi-World Group's products are listed in breed of the Chinese medicine protection (國家中藥保護品種), and 100% of its products are included in the national essential list for the basic medical insurance medicine (國家基本醫療保險藥物目錄品種). Most of the products of the Guangdong Medi-World Group are sold to retail drug stores and hospitals in the People's Republic of China ("PRC").

The strength of the Guangdong Medi-World Group lies in its competitive edge arising from continuous development of new medicines and its extensive sales network which has been developed to cover both hospitals and OTC drug stores through the marketing strategy of academic promotion. It also committed considerable efforts to its research and development and quality control management which not only made the products safe and effective, but also achieved excellent sales results.

The audited combined net profit attributable to the Guangdong Medi-World Group for the two financial years ended 31 December 2006 and 2007 and the six months ended 30 June 2008 are as follows:

	For the six months ended 30 June 2008 HK$' million	For the year ended 31 December 2007 HK$' million	2006 HK$' million
Turnover	110.3	167.4	127.1
Audited combined net profit before taxation	32.0	28.5	21.4
Audited combined net profit after taxation	24.6	26.3	19.2

As at 30 June 2008, the audited combined net asset value of the Guangdong Medi-World Group was approximately HK$145 million.

DIVIDEND

As the Group harvested growing results, we are committed to rewarding our shareholders. The Board has resolved to recommend a final dividend of HK0.7 cent per ordinary share to the equity shareholders of the Company for the year ended 31 December 2008 (2007: HK0.5 cent per ordinary share). The total amount of dividend to be distributed shall be approximately HK$11.40 million. (2007: HK$4.16 million), representing a dividend payout ratio of 56.1% of the profit attributable to equity shareholders.

OUTLOOK AND STRATEGIES

The Board is confident that the pharmaceutical industry will grow steadily with the PRC government's favorable policies in 2009 and years ahead as the government has a plan to invest RMB850 billion in the new reform of the pharmaceutical system in PRC. This investment, which will mostly be used as the government's subsidies for the new rural cooperative pharmaceutical service and urban residents' insurance, is expected to greatly increase the market volume of the pharmaceutical industry in PRC. The industry will be entering its rapid development stage in the domestic market in the next 3 years.

After the acquisition mentioned above, the Group has now 4 manufacturing subsidiaries operating with different brand names and sales network, producing different product lines. With a view to achieving maximum economic benefit and overall operation efficiency, we will adopt the consolidation and growth strategies as follows:

1. Enrich core product portfolio

We will increase sales and marketing efforts on several emerging high value-added products which are proved to be more effective than similar products and have more market potentials. Some of these products are the unique products of the Group, therefore we can review and formulate pricing strategy according to market acceptance and preference. We will also place more resources on research and development to broaden our product line in order to improve our gross profit margin and alleviate the concentration risk of reliance on the Group's existing key products.

2. Step up sales network construction and management

We will rationalize and consolidate the sales network of the Group's subsidiaries, which mainly covers Southern China region, Northern China region and affluent coastal cities at the moment. With the government's subsidies for hospitals in rural areas and health care system, the demand for basic pharmaceutical products, particularly modern Chinese medicines, is likely to rise. We will respond to the market change with the implementation of a "Step by step penetration program" (「星火燎原計劃」), in which we will commit considerable effort to expanding its existing market, particularly, the second-tier and third-tier cities and the end market in rural areas. We will also integrate our resources to fortify our partnership with strategic distributors to strengthen our distribution network, and further increase our market coverage and penetration.

3. Integrate internal resources

With three of the Group's subsidiaries located in Foshan city, we plan to establish a unified purchase platform to lower purchase cost through scale advantage, and assure the quality of the raw materials. We will also rearrange and make full use of the current human resources, especially the marketing personnel to support the Group's consolidation and lower relevant cost, and through the sharing of production techniques of the subsidiaries, we strive to achieve cost effectiveness and product quality. Moreover, we will establish a unified settlement platform to promote efficiency of the Group's internal management system and monitor the execution and the use of expenditure. With this settlement platform, we will improve the Group's cash management so as to reduce finance cost and make prompt actions in dealing with the Group's credit risk.

OUTLOOK AND STRATEGIES (Continued)

4. Ensure quality and safety of products

With our core value which is "With integrity and responsibility, we offer people products of quality" (德在藥中，藥為大眾), we will strengthen our quality control management by upgrading our equipment, improving our production skills and quality control procedures, so as to ensure compliance with the requirements of GMP and the quality and safety of our products.

5. Focus on risk management

Integration of resources is vital for the success of the Group as it brings great benefit to the Group. However, it's a complex process because of different business model and management culture of the subsidiaries, so there might be integration risk. Besides, with the economic crisis continues to unfold, there might be delay in settlement of receivables from our major customers, this will increase the Group's credit risk. Furthermore, the Chinese government has strengthened its monitoring and regulatory control on pharmaceutical industry in terms of drug regulation, quality assurance and environmental protection. All these will post challenge to our risk management. We will allocate more resources to evaluate and monitor these risks with appropriate internal control procedures, so that we can adapt swiftly to the market change and enhance our core competence, thus ensuring sustainable growth and the investment value of the Group.

6. Seize on merger and acquisition opportunities

We believe that consolidation will continue to be the trend of the pharmaceutical industry due to the implementation of the new healthcare reform. With our management team's in-depth knowledge of the local market, we will consider any new merger and acquisition opportunities that will contribute to the Group in terms of brand names, sales network, products and research and development.

As a large scale modern pharmaceutical manufacturer, the Group seized on the chance of expanding its market in 2008 to actively develop its current business, invest more resources to increase its production capacity, and improve the quality of products. We are heading towards a new goal in the year of 2009. Facing the new challenges and opportunities ahead, the Board aims to grab every opportunity of pharmaceutical industry integration to focus on the research and development of products, accelerate the establishment of the marketing team, and increase the market share of our products. The Board believes that through the above mentioned strategies, the Group will be able to grow in a sustainable way and bring a greater return to the shareholders.

APPRECIATION

I acknowledge with deep gratitude the work and support of my fellow directors and the staff of the Group, which have been crucial to our success. I am confident that their endeavours will continue to help the Group achieve greater accomplishments in the years ahead. I would also like to take this opportunity to express my sincere appreciation to all our shareholders, customers and suppliers for their longtime support.

DU Richeng
Chairman

Hong Kong, 23 April 2009

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2008 HK$'000	2007 HK$'000	% Change
Turnover	443,533	355,880	24.6
Gross profit	158,284	124,498	27.1
Profit from operations	54,783	34,164	60.4
Profit attributable to equity shareholders of the Company	20,330	8,396	142.1
Net cash generated from operating activities	69,672	51,615	35.0
Final dividend proposed (HK cent)	0.7	0.5	40.0

Key financial figures	Year ended 31 December 2008	2007
Gross profit margin (%)	35.7	35.0
Net profit margin (%)	10.9	7.0
Gearing ratio (Bank loan to total equity attributable to equity shareholders of the Company) (%)	5.1	N/A
Debt ratio (Total liabilities to total equity attributable to equity shareholders of the Company) (%)	41.4	41.5
Stock turnover (days)	105.5	115.0
Trade and bills receivable turnover (days)	44	65
Dividend payout ratio (%)	56.1	49.5

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2008, the Group continued to produce Chinese medicine and pharmaceutical products of good efficacy and high quality, with an increase in turnover by 24.6% to approximately HK$443.53 million (2007: HK$355.88 million). Such increase was primarily attributable to the increase in selling price and the continuing appreciation of Renminbi against Hong Kong dollars.

The aggregate turnover of the three key products, namely 鼻炎康片 (Biyankan tablet), 維C銀翹片 (VC Yingqiao tablet) and 馮了性風濕跌打藥酒 (Feng Liao Xing Rheumatism Medical Wine), increased by 10.7% to approximately HK$222.07 million, accounted for approximately 50.1% of the Group's turnover for the year as compared to 56.3% in 2007.

Cost of Sales

For the year ended 31 December 2008, the Group's cost of sales was approximately HK$285.25 million (2007: HK$231.38 million), representing an increase of approximately 23.3%. Such increase was mainly due to the consistent rise in cost of materials and appreciation of Renminbi against Hong Kong dollars. Direct materials, direct labour and production overhead accounted for approximately 64.5%, 12.4% and 23.1% of the total production costs respectively, while their comparative percentage for 2007 were 68.7%, 12.2% and 19.1% respectively.

Gross Profit Margin

The Group's overall gross profit margin raised by 0.7 percentage point to 35.7%, which was mainly attributable to lower purchase costs enjoyed by the bulk purchase of some scarce or precious materials.

Selling and Distribution Costs

For the year ended 31 December 2008, selling and distribution costs amounted to approximately HK$66.24 million (2007: HK$55.98 million), which mainly consisted of advertising and promotion expenses of approximately HK$43.76 million, salary expenses of sales and marketing staff and office and rental expenses of approximately HK$17.87 million and transportation costs of approximately HK$4.61 million.

Administrative Expenses

Administrative expenses for the year ended 31 December 2008 amounted to HK$42.25 million (2007: HK$37.63 million), increased by 12.3% as compared to that of the corresponding year, and were mainly attributable to the staff costs.

The administrative expenses were mainly comprised of salaries of approximately HK$16.05 million, depreciation and amortization of approximately HK$2.60 million and office and rental expenses of HK$11.91 million.

Finance Costs

The Group's finance costs for the year amounted to HK$1.38 million (2007: HK$1.26 million) which mainly represented the interest expenses of bank borrowings.

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources

As at 31 December 2008, the Group's current assets amounted to HK$309.64 million (2007: HK$229.39 million), including cash and cash equivalents of HK$155.72 million (2007: HK$82.36 million), current liabilities amounted to HK$120.53 million (2007: HK$100.82 million), net working capital amounted to HK$189.11 million (2007: HK$128.57 million). The Group's current ratio increased from 2.28 in 2007 to 2.57 in 2008. The gearing ratio based on interest bearing debts for the year is 5.1% (2007: Nil).

CHARGES ON GROUP ASSETS

As at 31 December 2008, there was no charge on the Group's assets for whatsoever purpose.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2008 (2007: Nil).

EXCHANGE RATE RISK

During the year, individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited so that no financial instrument has been used for the purpose of hedging exchange rate risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group employed a total of 969 (2007: 951) staff including the directors of the Company. Remuneration packages principally comprised of salary, discretionary performance bonus based on individual merits and share option scheme. The Group's total employee remuneration for the year was approximately HK$65.01 million (2007: HK$50.83 million).

Biographical Details of Directors

NON-EXECUTIVE DIRECTOR

DU Richeng, aged 60, was appointed to the board of directors (the "Board") as a non-executive director in January 2008 and is also a member of the Company's remuneration committee. Mr. DU is the Chairman of the Company. Mr. DU has over 30 years' experience in international trading, industrial management, property development and public utilities. Mr. DU was an executive director of the Company from 14 April 1998 to 8 February 2001. Mr. DU came to work in Hong Kong in March 1990 and was appointed as the vice chairman and managing director of Foshan Development Company Limited ("FDC"), a controlling shareholder of the Company in November 1996. Subsequently, he was appointed as the chairman of 佛山電建集團公司 (Foshan Electric Power Construction Group Corporation) on his return to the mainland China in January 2001 and was re-designated as the chairman of 佛山市公用事業控股有限公司 (Foshan Public Utilities Holding Co., Ltd.) ("Foshan Public Utilities") in July 2006 and had held such office until December 2008. Now, Mr. DU is a 調研員(senior consultant) of Foshan Public Utilities.

HE Haochang, aged 59, was appointed to the Board as an executive director in February 2001. Mr. HE has been the Chairman and Managing Director since 19 July 2001. With effect from 1 April 2007 and later on, Mr. HE resigned as the Managing Director of the Company and the director of a number of subsidiaries of the Company respectively. Also from 1 April 2007, Mr. HE has been re-designated as a non-executive director but remaining as the Chairman of the Company. As the Chairman of the Board, Mr. HE is responsible for the running of the Board and the ensuring of the directors' performance and strategic planning. Educated in the People's Republic of China ("PRC"), Mr. HE is experienced in the management of joint-venture enterprises in the PRC. At present, Mr. HE is also the Chairman of FDC, a controlling shareholder of the Company.

Mr. HE resigned as the Company's non-executive director and Chairman on 1 January 2008. The Group would like to thank Mr. HE for his valuable contributions to the Company and the Group.

EXECUTIVE DIRECTORS

YANG Bin, aged 41, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company with effect from 11 February 2009. Mr. YANG graduated from 中央民族大學 (Minzu University of China) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.). Mr. YANG has 20 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr.YANG is currently the Chairman and a director of 廣東環球製藥有限公司 (Guangdong Medi-World Pharmaceutical Co., Ltd.), 山東魯抗醫藥集團魯亞有限公司 (Shandong Lukang Pharmaceutical Group Luya Co., Ltd.) and 佛山盈天醫藥科技有限公司 (Foshan Winteam Medical Technology Company Limited).

SITU Min, aged 39, was appointed to the Board in September 2001. Mr. SITU is the Chief Financial Officer and the Qualified Accountant of the Company. Mr. SITU is responsible for the Group's financial planning and management, overseeing all its financial matters. He is a fellow member of the Association of Chartered Certified Accountants and is also a member of Chinese Institute of Certified Public Accountants. Mr. SITU has experience in auditing and financial management. He had worked as the Manager of Finance Department of FDC, a controlling shareholder of the Company.

LI Songquan, age 32, was appointed to the Board in January 2007. Mr. LI has been appointed as the Deputy Managing Director with effect from 1 April 2007. Mr. LI is responsible for the overall strategic planning and management of the Group's business. Mr. LI graduated from South China University of Technology. He has experience in the regime of state-owned enterprises and joint-venture enterprises in the PRC, especially in the reform, reorganization, acquisition, merger and listing of state-owned enterprises.

EXECUTIVE DIRECTORS (Continued)

LAM Siu Hung, aged 50, was appointed to the Board in July 2005. Mr. LAM was the Deputy Managing Director of the Company and then was promoted as the Managing Director with effect from 1 April 2007. Mr. LAM is responsible for the formulation of operational plans and the supervision of the day-to-day administration of the Company's corporate headquarters in Hong Kong as well as the management of the Group's business. Mr. LAM is presently a practicing Certified Public Accountant and is a fellow member of the Association of Chartered Certified Accountants. On top of that, he is a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities Institute. Mr. LAM has built up over 20 years' experience in accounting, auditing, taxation and corporate finance. Additionally, he is, at present, an independent non-executive director of Long Far Pharmaceutical Holdings Limited, a main board listed company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. LAM resigned as an executive director and the Managing Director of the Company on 21 January 2009. The Group would like to thank Mr. LAM for his valuable contributions to the Company and the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LO Wing Yat, aged 50, was appointed to the Board on 11 February 2009. Mr. LO is the Executive Vice Chairman and Chief Executive Officer of CIAM Group Limited (Stock Code: 378), whose shares are listed on the Stock Exchange. He is also the Chief Executive Officer of CITIC International Assets Management Limited, the managing director of CITIC International Financial Holdings Limited and a non-executive director of CITIC Ka Wah Bank Limited. Mr. LO also serves as director in numerous Hong Kong listed companies. He is an executive director of Jia Sheng Holdings Limited (Stock Code: 729), a non-executive director of China Fortune Holdings Limited (Stock Code: 110) and Longlife Group Holdings Limited (Stock Code: 8037), and a former non-executive director of China Sciences Conservational Power Limited (Stock Code: 351). Mr. LO graduated from The University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. During his legal career, Mr. LO was specialized in banking project financing primarily in the PRC.

PANG Fu Keung, aged 37, was appointed to the Board on 11 February 2009. Mr. PANG is the Senior Investment Professional – TRG Management Hong Kong Limited (known as The Rohatyn Group) and Head of the China Special Investments. Mr. PANG was also a director of Citigroup's Global Special Situations Group responsible for Greater China distressed assets, NPL portfolios, pre-IPO and growth equity. Mr. PANG formerly worked for KPMG's Financial Advisory Services as a corporate restructuring specialist. Mr. PANG has extensive experience in assurance, corporate finance and corporate restructuring work and has assisted a number of listed companies in Hong Kong and the PRC since mid-1990s. Mr. PANG graduated from the University of New South Wales in Australia and is a member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. PANG is also a member of The Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

CHAN Ting Chuen, David, aged 61, was appointed to the Board in December 1992. Mr. CHAN was the Chairman of both the Company's audit committee and remuneration committee. He graduated with a bachelor degree in Civil Engineering from The University of Hong Kong. He is an entrepreneur, especially in the property development and manufacturing industry. Mr. CHAN is currently an executive director of Symphony Holdings Limited, a main board listed company on the Stock Exchange.

Mr. CHAN resigned as an independent non-executive director and the Chairman and a member of the audit committee and the remuneration committee of the Company on 11 February 2009. The Group would like to thank Mr. CHAN for his valuable contributions to the Company and the Group.

NG Pui Cheung, Joseph, aged 62, was appointed to the Board in June 2002 and was a member of the Company's audit committee and remuneration committee. Being an ex-banker, he is experienced in the PRC financial business. Mr. NG had worked in a number of reputable banking institutions which including The Bank of East Asia, Limited, Banque Nationale de Paris, Bank of the Orient, Societe Generale and Credit Lyonnais Securities (Asia) Limited. Mr. NG was the General Manager in relation to the Hong Kong operation of Smart Rich Energy Finance (Holdings) Limited (formerly known as Credit Card DNA Security System (Holdings) Limited), a main board listed company on the Stock Exchange.

Mr. NG resigned as an independent non-executive director and a member of the audit committee and the remuneration committee of the Company on 24 March 2009. The Group would like to thank Mr. NG for his valuable contributions to the Company and the Group.

CHEUNG Kin Piu, Valiant, aged 63, was appointed to the Board in March 2004 and was a member of the Company's audit committee and remuneration committee. He was a partner at KPMG, a leading international accounting firm in Hong Kong, until his retirement in March 2001. Mr. CHEUNG has extensive experience in assurance and corporate finance work, particularly in trading and manufacturing corporations in Hong Kong and the PRC and has also assisted a number of companies in obtaining stock exchange listings in Hong Kong, the PRC, Singapore and the United States. In addition, Mr. CHEUNG has provided financial advisory and due diligence services to foreign investors on investments in the PRC. Mr. Cheung is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. At the moment, he is an independent non-executive director of Pacific Century Premium Developments Limited, Dah Chong Hong Holdings Limited and The Bank of East Asia, Limited, all the companies listed on the main board of the Stock Exchange. Further, Mr. Cheung is also an independent non-executive director of The Bank of East Asia (China) Limited which is incorporated in the PRC and is a wholly owned subsidiary of The Bank of East Asia, Limited whose shares are listed on the Stock Exchange.

Mr. CHEUNG resigned as an independent non-executive director and a member of the audit committee and the remuneration committee of the Company on 21 January 2009. The Group would like to thank Mr. CHEUNG for his valuable contributions to the Company and the Group.

The Board of Directors (the "Board") of Wing Shan International Limited (the "Company") believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Company and its subsidiaries (the "Group"). The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all of the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of the Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2008.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

None of the directors is related to each other and the Board of the Company comprises the following directors during the year and up to the date of this report:

Non-executive Directors:

DU Richeng *Chairman (appointed as Non-executive Director and Chairman on 1 January 2008)*
HE Haochang *Chairman (resigned as Non-executive Director and Chairman on 1 January 2008)*

Executive Directors:

YANG Bin *(appointed as Executive Director on 6 February 2009 and as Managing Director on 11 February 2009)*
SITU Min *Chief Financial Officer & Qualified Accountant*
LI Songquan *Deputy Managing Director*
LAM Siu Hung *(resigned as Executive Director and Managing Director on 21 January 2009)*

Independent Non-executive Directors:

LO Wing Yat *(appointed on 11 February 2009)*
PANG Fu Keung *(appointed on 11 February 2009)*
CHAN Ting Chuen, David *(resigned on 11 February 2009)*
CHEUNG Kin Piu, Valiant *(resigned on 21 January 2009)*
NG Pui Cheung, Joseph *(resigned on 24 March 2009)*

As at the date of this report, the Board comprises six directors, including one non-executive director, three executive directors and two independent non-executive directors. The existing directors have a mix of core competence and experiences in areas such as pharmaceutical, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at the Board meetings and the relevant committee works. In addition, Mr. PANG Fu Keung, an independent non-executive director, possesses appropriate professional accounting qualifications and financial management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company when necessary. New directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board meets regularly at quarterly basis. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying Board papers are sent to the directors within reasonable time before the meetings. Draft minutes of Board meetings are circulated to the directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by directors.

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Composition and Role (Continued)

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:–

- setting the Group's overall objectives and strategies.
- approval of annual budgets and business plans.
- evaluating and monitoring operating and financial performance.
- reviewing and monitoring internal control and risk management.
- approval of announcements of financial results.
- declaration and recommendation of the payment of dividend.
- appointment of new directors.

During the year, eight full board meetings, of which four were regular quarterly meetings, were held and the individual attendance of each director is set out below:

Directors	Attendance of Board Meeting	Attendance Rate
Non-executive Director:		
DU Richeng	8/8	100%
Executive Directors:		
LAM Siu Hung	8/8	100%
SITU Min	8/8	100%
LI Songquan	8/8	100%
Independent Non-executive Directors:		
CHAN Ting Chuen, David	7/8	88%
CHEUNG Kin Piu, Valiant	8/8	100%
NG Pui Cheung, Joseph	8/8	100%

Chairman and Managing Director

As at the date of this report, Mr. DU Richeng, a non-executive director, is the Chairman of the Board, and Mr. YANG Bin, an executive director, is the Managing Director of the Company. The chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of daily operations of the Group.

Appointment and Re-election of Directors

The Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company.

All the independent non-executive directors are appointed for a specific term and subject to re-election. Mr. LO Wing Yat and Mr. PANG Fu Keung have the service contracts for a term of two years with the Company.

The Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Appointment and Re-election of Directors (Continued)

According to the Article 92 of the Articles of Association of the Company, a director appointed by the Board to fill a casual or as an addition to the Board. Any director so appointed shall hold office only until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following Annual General Meeting (in case of an addition to the existing Board), and shall then be eligible for re-election. Furthermore, according to the Article 101 of the Articles of Association of the Company, at each Annual General Meeting one-third of the directors for the time being, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office. The directors to retire in every year shall be those who have been longest in office.

Audit Committee

As at the date of this report, the audit committee comprises two independent non-executive directors. The Chairman of the audit committee is Mr. PANG Fu Keung. Following the resignation of Mr. NG Pui Cheung, Joseph on 24 March 2009, the number of independent non-executive directors and members of the audit committee of the Company fell below the minimum number as required under Rule 3.10 and Rule 3.21 of the Listing Rules, the board will appoint an appropriate person to fill the vacancy as soon as possible within three months from 24 March 2009 pursuant to Rule 3.11 and Rule 3.23 of the Listing Rules.

The written terms of reference which describe the authority and duty of the audit committee were subsequently amended in April 2009 to conform to the Code, a copy of which is posted on the Company's website.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system and internal control procedures; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

The audit committee can seek independent professional advice at the expenses of the Company.

During the year, two audit committee meetings were held and the individual attendance of each member is set out below:

Independent Non-executive Directors	Attendance of Audit Committee Meeting	Attendance Rate
CHAN Ting Chuen, David *(Chairman)*	2/2	100%
CHEUNG Kin Piu, Valiant	2/2	100%
NG Pui Cheung, Joseph	2/2	100%

During the year, the audit committee reviewed the audited accounts of the Group for the year ended 31 December 2007 and the interim results of the Group for the year 2008, as well as the effectiveness of the internal control system of the Group.

Remuneration Committee

As at the date of this report, the remuneration committee which was established in 2005 comprises two independent non-executive directors and the Chairman of the Company. The Chairman of the remuneration committee is Mr. LO Wing Yat. None of the member or any associate with them should be involved in deciding his own remuneration. The remuneration committee advises the Board on the Group's overall policy and structure for the remuneration of the directors and senior management. The written terms of reference of the remuneration committee are available on the Company's website.

In determining the emolument payable to the directors, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Remuneration Committee (Continued)

- providing base remuneration to the employees that is competitive to the industry and general market condition;
- awarding employees in recognition of good individual and corporate performance; and
- encouraging future employee contributions to achieve overall corporate goals.

During the year, one remuneration committee meeting was held and the individual attendance of each member is set out below:

Independent Non-executive Directors	Attendance of Remuneration Committee Meeting	Attendance Rate
CHAN Ting Chuen, David *(Chairman)*	1/1	100%
CHEUNG Kin Piu, Valiant	1/1	100%
NG Pui Cheung, Joseph	1/1	100%
Non-executive Directors		
DU Richeng	1/1	100%

During the meeting, the remuneration committee discussed and reviewed the basis for remuneration policy, package and share option scheme of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. After making specific enquiry, all of the directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year. Specified employees, who may possess or have access to price sensitive information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all directors so as to enable them to make an informed assessment of the financial and other information at Board meetings for approval.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2008, the directors have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
- selected and applied consistently appropriate accounting policies;
- made judgments and estimates that are prudent and reasonable; and
- prepared the accounts on the going concern basis.

The statement about the directors' reporting responsibilities is set out in the Independent Auditor's Report on page 26 of this annual report.

AUDITORS' REMUNERATION

The fees charged by the Group's external auditor, KPMG, for statutory audit and non-audit services are set out below:

Services rendered	Fees paid/payable in 2008 (HK$'000)
Audit service	1,800
Non-audit service Acting as reporting accountants for the issue of circular in relation to the major and connected transaction in respect of the acquisition of the entire issued share capital in Smartpoint International Limited.	2,700
Total	4,500

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual evaluation of the system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the audit committee to ensure appropriate remedial measures have been implemented. Subsequent to the year ended 31 December 2008, the Board decided to set up an internal audit department to review the Group's system of internal controls over operational and financial reporting functions. The Board and the audit committee can request the internal audit department to report to them any significant findings of such reviews.

COMMUNICATION WITH SHAREHOLDERS

The Board has endeavoured to maintain an on-going dialogue with the shareholders and in particular, use Annual General Meetings or other general meetings to communicate with the shareholders and encourage their participation by providing forum for them to raise comments and exchange views with the Board. The Company's website offers communication channel between the Company and the shareholders, and also frequently updated key information of the Group are available on the company's website.

VOTING BY POLL

The Company regularly informs the shareholders of the procedure for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

The directors have pleasure in submitting their annual report together with the audited accounts of Wing Shan International Limited (the "Company") and the Company and its subsidiaries which collectively called the "Group" for the year ended 31 December 2008.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the company's subsidiaries are the production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China ("PRC").

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 28 to 72.

No interim dividend was paid during the year. The directors have resolved to recommend a final dividend of HK0.7 cent per ordinary share for the year ended 31 December 2008 (2007: HK0.5 cent) to the shareholders on the register of members on 5 June 2009. This recommendation has not been incorporated in the accounts.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$20,330,000 (2007: HK$8,396,000) have been transferred to reserves. Other movements in reserves are set out in note 25 to the accounts.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2008 are set out in note 17 to the accounts.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 13 to the accounts.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 25 to the accounts.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 73 to 74.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for around 31% of the Group's total turnover during the year.

The purchases from the Group's five largest suppliers accounted for around 36% of the Group's total purchases during the year.

At no time during the year, none of the directors, their associates, or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers. However, Mr. YANG Bin, who was appointed as an executive director of the Company on 6 February 2009 and was also a substantial shareholder of the Company, had interest in one of the Group's five largest suppliers.

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

DIRECTORS

The board of directors (the "Board") comprises the following directors during the financial year and up to the date of this report:

Non-executive Directors

DU Richeng *Chairman (appointed as Non-executive Director and Chairman on 1 January 2008)*
HE Haochang Chairman *(resigned as Non-executive Director and Chairman on 1 January 2008)*

Executive Directors

YANG Bin *(appointed as Executive Director on 6 February 2009 and appointed as Managing Director on 11 February 2009)*
SITU Min *Chief Financial Officer & Qualified Accountant*
LI Songquan *Deputy Managing Director*
LAM Siu Hung *(resigned as Executive Director and Managing Director on 21 January 2009)*

Independent Non-executive Directors

LO Wing Yat *(appointed on 11 February 2009)*
PANG Fu Keung *(appointed on 11 February 2009)*
CHAN Ting Chuen, David *(resigned on 11 February 2009)*
CHEUNG Kin Piu, Valiant *(resigned on 21 January 2009)*
NG Pui Cheung, Joseph *(resigned on 24 March 2009)*

The Company has received from each independent non-executive director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers all the independent non-executive directors to be independent.

In accordance with Articles 92 and 101 of the Company's Articles of association, Mr. YANG Bin, Mr. SITU Min, Mr. LI Songquan, Mr. LO Wing Yat and Mr. PANG Fu Keung will retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of the resigned and existing directors of the Company, including essentially, the particulars required under paragraph 12 of Appendix 16 the Listing Rules (if and as applicable and appropriate), are set out on pages 10 to 12.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. DU Richeng has entered into an appointment letter with the Company for a term of one year commencing on 1 January 2009 which was ratified and approved by the Board on 2 April 2009.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. YANG Bin has a service contract with the Company for a term of two years commencing on a future date on which he has obtained a working visa in Hong Kong which will continue thereafter until terminated by either party to the agreement at six months' notice.

Mr. SITU Min has a service contract with the Company for a term of two years commencing on 1 March 2003 which will continue thereafter until terminated by either party to the agreement at six months' notice.

Mr LI Songquan has a service contract with the Company for a term of two years commencing on 1 April 2007 which has been approved by the Board as well as the remuneration committee and will continue thereafter until terminated by either party to the agreement at six months' notice.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

All the independent non-executive directors are appointed for a specific term subject to re-election. Mr. LO Wing Yat and Mr. PANG Fu Keung have entered into appointment letters with the Company for a term of two years commencing on 11 February 2009 which have been approved by the Board.

DIRECTORS' FEES

The fee for each of the directors was fixed at HK$100,000 per annum by the shareholders at the Annual General Meeting of the Company held in May 2002 and continues to be paid at such rate until otherwise determined by the shareholders in general meeting.

MATERIAL CONNECTED TRANSACTIONS

There is no material connected transaction with related party in whatsoever nature during the year ended 31 December 2008 or at any time during that year (2007: Nil).

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2008, none of the directors and chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) ("SFO") as recorded in the register which were required to be kept under 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 Issuers. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the year.

As at the date of this report, Mr. YANG Bin and Mr. SITU Min had the following interests in the shares of the Company as recorded in the register required to be kept under section 352 of the SFO:

Long positions in shares and underlying shares of the Company:

Name of Directors	Capacity	Number of Ordinary Shares	Underlying Shares Pursuant to Share Options	Total Interests	Approximate Percentage of Total Interests to Issued Share Capital (%)
YANG Bin	interest of controlled corporation	564,102,563 *(Note 1)*	–	564,102,563	34.64
SITU Min	beneficial owner	268,000 *(Note 2)*	–	268,000	0.02

Note:

1. *On 29 November 2008, the Company entered into the Sale and Purchase Agreement (the "Agreement") with Sureplan Limited and Mr. YANG Bin, Mr. XU Tiefeng and Mr. WU Chiu Kong (the "Guarantors") pursuant to which, among other things, Sureplan Limited agreed to sell and the Company agreed to acquire the entire issued share capital of Smartpoint International Limited, and the same parties entered into the Supplemental Agreement to amend the Agreement on 16 December 2008. The acquisition of Smartpoint International Limited was completed on 6 February 2009 and the 564,102,563 shares represent the consideration shares were issued to Sureplan Limited pursuant to the Agreement. On even date, Mr. YANG Bin was appointed as Executive Director. The shares were held by Sureplan Limited 50% of which was owned indirectly by Mr. YANG Bin.*

2. *268,000 ordinary shares were acquired in February 2009.*

DISCLOSURE OF INTERESTS (Continued)

Substantial Shareholders' Interests

On 1 January 2008, Hensil Investments Group Limited held 315,000,000 ordinary shares of the Company. On 4 February 2008, Hensil Investments Group Limited entered into an agreement with Madam Yip Siu Chun to acquire the entire 290,196,037 ordinary shares of the Company held by her for a consideration of HK$66,745,088.51, representing HK$0.23 per ordinary share. Under the acquisition of the shares, a mandatory unconditional cash offer has been made to public shareholders. Finally, Hensil Investments Group Limited had received valid acceptances in respect of 94,849 ordinary shares.

On 29 November 2008, the Company entered into the Agreement with Sureplan Limited and the Guarantors, pursuant to which, among other things, Sureplan Limited agreed to sell and the Company agreed to acquire the entire issued share capital of Smartpoint International Limited at a consideration of HK$300 million, and the same parties entered into the supplemental agreement to amend the Agreement on 16 December 2008. The consideration of HK$300 million should be settled as to 80 million by cash and as to HK$220 million by the issue and allotment of 564,102,563 consideration shares by the Company to Sureplan Limited. Also the 233,334,000 placing shares should be issued and alloted to the placees. Although the acquisition of Smartpoint International Limited was not completed as at 31 December 2008, Sureplan Limited had the interest in the shares of the Company.

As at 31 December 2008, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of SFO were as follows:

	Capacity	Number of Ordinary Shares	Percentage of Issued Capital (%) *(Note 3)*
Hensil Investments Group Limited	beneficial owner	605,290,886 *(Note 1)*	72.84
Foshan Development Company Limited	interest of controlled corporation	605,290,886 *(Note 1)*	72.84
Sureplan Limited	beneficial owner	564,102,563 *(Note 2)*	67.88
YANG Bin	interest of controlled corporation	564,102,563 *(Note 2)*	67.88

Note:

1. *The 605,290,886 shares are held by Hensil Investments Group Limited, which is wholly-owned by Foshan Development Company Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in such 605,290,886 shares held by Hensil Investments Group Limited.*

2. *The 564,102,563 shares represent the consideration shares issued to Sureplan Limited pursuant to the Agreement. Sureplan Limited is owned indirectly as to 25% by Mr. WU Chiu Kong, 25% by Mr. XU Tiefeng and 50% by Mr. YANG Bin. Profit Channel Development Limited is deemed to be interested in Sureplan Limited's interest in the Company under the SFO by virtue of Profit Channel Development Limited being entitled to control the exercise of not less than one-third of the voting power at the general meeting of Sureplan Limited. And Profit Channel Development Limited is wholly-owned by Mr. YANG Bin. So Mr. YANG Bin is deemed to be interested in Sureplan Limited's interest in the Company under the SFO.*

3. *The percentage level in relation to interest in shares is calculated based on the issued capital of the Company as at 31 December 2008 before the issue of the consideration share and placing shares.*

DISCLOSURE OF INTERESTS (Continued)

Substantial Shareholders' Interests (Continued)

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2008.

On 6 February 2009, the Acquisition of Smartpoint International Limited was completed. The issued share capital of the Company was enlarged by the issue of the 564,102,563 consideration shares and 233,334,000 placing shares to Sureplan Limited and placees respectively, the substantial shareholders as at the date of this report were as follows:

	Capacity	Number of Ordinary Shares	Percentage of Issued Capital (%)
Hensil Investments Group Limited	beneficial owner	605,290,886 *(Note 1)*	37.17
Foshan Development Company Limited	interest of controlled corporation	605,290,886 *(Note 1)*	37.17
Sureplan Limited	beneficial owner	564,102,563 *(Note 2)*	34.64
YANG Bin	interest of controlled corporation	564,102,563 *(Note 2)*	34.64

Note:

1. *The 605,290,886 shares are held by Hensil Investments Group Limited, which is wholly-owned by Foshan Development Company Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in such 605,290,886 shares held by Hensil Investments Group Limited.*

2. *The 564,102,563 shares represent the consideration shares issued to Sureplan Limited pursuant to the Agreement. Sureplan Limited is owned indirectly as to 25% by Mr. WU Chiu Kong, 25% by Mr. XU Tiefeng and 50% by Mr. YANG Bin. Profit Channel Development Limited is deemed to be interested in Sureplan Limited's interest in the Company under the SFO by virtue of Profit Channel Development Limited being entitled to control the exercise of not less than one-third of the voting power at the general meeting of Sureplan Limited. And Profit Channel Development Limited is wholly-owned by Mr. YANG Bin. So Mr. YANG Bin is deemed to be interested in Sureplan Limited's interest in the Company under the SFO.*

SHARE OPTION SCHEME

The Company adopted a share option scheme ("Scheme") for any eligible employee or director of any member of the Group. The Scheme was approved by the Company's shareholders at an Extraordinary General Meeting of the Company held on 22 May 2002, details of which have been disclosed in the Company's circular to shareholders dated 29 April 2002 and the most recent interim and annual reports. Disclosures in respect of the share options granted, exercised, lapsed and cancelled during the year are listed below under the section headed "Options to Subscribe for Ordinary Shares Granted under the Company's Share Option Scheme" in this report.

Details of the Scheme

Details of the Scheme have already been disclosed in the Company's circular to shareholders dated 29 April 2002 and approved by the Company's shareholders on 22 May 2002. The following is a summary of the Scheme:

(i) Who May Participate

Any employee or director of any member of the Group ("Participant(s)") as invited by the Board at the Board's absolute discretion may participate. In determining the basis of eligibility of each Participant, the Board will mainly take into account of the experience of the Participant on the Group's business, the length of service of the Participant with the Group and the efforts and contributions the Participant has made or is likely to be able to give or make towards the success of the Group in the future.

(ii) Purpose

The purpose of the Scheme is for the Company to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group, to encourage the Participants to perform their best in achieving the goals of the Group and above all to allow the Participants to enjoy the results of the Company attained through their efforts and contributions.

(iii) Duration and Administration

Subject to that the Scheme is terminated by the Company, the Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect and options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue.

(iv) Grant of Option

The Board shall be entitled at any time within 10 years after the date of adoption to make an offer to any Participant. An option shall be deemed to have been granted and accepted and to have taken effect when a signed copy of an offer letter made by the Company to a Participant together with a remittance in favour of the Company of HK$1.00 by way of consideration for the granting of the same is received by the Company. Subject to the provisions of the Scheme and the Listing Rules, the Board may at its discretion, when making the offer, impose any conditions, restrictions or limitations in relation thereto as it may think fit.

(v) Subscription Price

The subscription price shall be a price determined by the Board and notified to a Participant and shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the grant of an option ("Grant Date"); (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding the Grant Date; and (c) the nominal value of a share.

SHARE OPTION SCHEME (Continued)

Details of the Scheme (Continued)

(vi) Maximum Number of Shares Available for Subscription

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the Scheme, unless the Company obtains an approval from its shareholders to refresh the 10% limit. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the shares in issue from time to time. As at the date of this report, the total number of shares available for issue under the Scheme was 80,945,824 shares which represented 4.97% of the existing issued share capital.

(vii) Maximum Entitlement of Shares of Each Participant

The total number of shares issued and to be issued upon exercise of the options granted to each Participant (including exercised, cancelled, lapsed and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Should any further grant of options in excess of the 1% limit of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME

The directors and chief executives had personal interests in the share options to subscribe for the shares of the Company. During the year, the movements in such options are as below:

Name of Directors/ Chief Executives	No. of Options Outstanding as at 1 January 2008	Date of Grant	Period during which Options Exercisable	Exercise Price per Share HK$	Options Granted during the year	Options Lapsed during the year	Market Value per Share at Date of Grant of Options HK$	No. of Options Outstanding as at 31 December 2008
HE Haochang *(N)*	4,200,000	30/7/2002	30/1/2003-29/1/2008	0.35	–	(4,200,000)	0.33	–
SITU Min *(E)*	3,800,000	30/7/2002	30/1/2003-29/1/2008	0.35	–	(3,800,000)	0.33	–
CHAN Ting Chuen, David *(I)*	–	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	–
NG Pui Cheung, Joseph *(I)*	–	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	–
CHEUNG Kin Piu, Valiant *(I)*	–	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	–
Total	8,000,000				2,484,000	(10,484,000)		–

(N) *Non-executive director*
(E) *Executive director*
(I) *Independent non-executive director*

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME (Continued)

Notes:

1. *Market value per share at date of grant is the closing price at date preceding the date of options granted.*
2. *The vesting period of the options are from the date of the options granted until the commencement date of the exercise period.*

Apart from the foregoing, at no time during the year was the Company or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in above section headed "Share Option Scheme" of this report, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 5(b) and 26 to the accounts.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

DU Richeng
Chairman

Hong Kong, 23 April 2009

KPMG

Independent auditor's report to the shareholders of
Wing Shan International Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of Wing Shan International Limited (the "Company") set out on pages 28 to 72, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated profit and loss account, 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 ACCOUNTS

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

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts 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 accounts.

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

OPINION

In our opinion, the consolidated accounts 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 Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 April 2009

Consolidated Profit and Loss Account

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Turnover	3	443,533	355,880
Cost of sales		(285,249)	(231,382)
Gross profit		158,284	124,498
Other revenue	4	4,233	3,224
Other net income	4	748	58
Selling and distribution costs		(66,237)	(55,984)
Administrative expenses		(42,245)	(37,632)
Profit from operations		54,783	34,164
Finance costs	5(a)	(1,378)	(1,258)
Profit before taxation	5	53,405	32,906
Income tax	6(a)	(4,938)	(7,871)
Profit for the year		48,467	25,035
Attributable to:	8 & 25(a)		
– Equity shareholders of the Company		20,330	8,396
– Minority interests		28,137	16,639
Profit for the year		48,467	25,035
Dividends payable to equity shareholders of the Company attributable to the year:	9		
Final dividend proposed after the balance sheet date		11,399	4,155
Earnings per share	10		
Basic		2.45 cents	1.01 cents
Diluted		N/A	N/A

The notes on pages 35 to 72 form part of these accounts.

Consolidated Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Non-current assets					
Fixed assets	13				
– Property, plant and equipment			135,763		141,817
– Investment properties			8,165		7,963
– Interests in leasehold land held for own use under operating leases			26,305		25,349
			170,233		175,129
Construction in progress	14		1,364		144
Intangible assets	15		78,706		90,701
Goodwill	16		141,037		132,738
Other financial assets	18		2,743		3,953
			394,083		402,665
Current assets					
Inventories	19	82,457		72,895	
Trade and other receivables	20	68,490		72,633	
Tax recoverable	21(a)	1,440		–	
Restricted deposits	22	1,529		1,498	
Cash and cash equivalents	22	155,722		82,364	
		309,638		229,390	
Current liabilities					
Trade and other payables	23	102,339		94,958	
Bank loans	24	18,190		–	
Tax payable	21(a)	–		5,864	
		120,529		100,822	
Net current assets			189,109		128,568
Total assets less current liabilities			583,192		531,233

Consolidated Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Non-current liabilities					
Deferred tax liabilities	*21(b)*	28,078		33,805	
			28,078		33,805
NET ASSETS			555,114		497,428
CAPITAL AND RESERVES	*25(a)*				
Share capital			83,097		83,097
Reserves			276,207		241,068
Total equity attributable to equity shareholders of the Company			359,304		324,165
Minority interests			195,810		173,263
TOTAL EQUITY			555,114		497,428

Approved and authorized for issue by the board of directors on 23 April 2009.

LI Songquan
Director

SITU Min
Director

The notes on pages 35 to 72 form part of these accounts.

Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Non-current assets					
Interest in subsidiaries	*17*		282,438		282,400
Current assets					
Other receivables	*20*	5,996		570	
Cash and cash equivalents	*22*	17,688		13,193	
		23,684		13,763	
Current liabilities					
Trade and other payables	*23*	6,900		1,958	
		6,900		1,958	
Net current assets			16,784		11,805
NET ASSETS			299,222		294,205
CAPITAL AND RESERVES	*25(b)*				
Share capital			83,097		83,097
Reserves			216,125		211,108
TOTAL EQUITY			299,222		294,205

Approved and authorized for issue by the board of directors on 23 April 2009.

LI Songquan
Director

SITU Min
Director

The notes on pages 35 to 72 form part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	2008		2007	
	$'000	$'000	$'000	$'000
Total equity at 1 January		497,428		450,770
Net income recognized directly in equity:				
Exchange differences on translation of accounts of the subsidiaries in the People's Republic of China ("PRC")	29,533		33,294	
Changes in fair value of available-for-sale securities, net of deferred tax	(587)		2,209	
Net income for the year recognized directly in equity		28,946		35,503
Net profit for the year		48,467		25,035
Total recognized income and expense for the year		574,841		511,308
Attributable to:				
Equity shareholders of the Company	362,969		323,876	
Minority interests	211,872		187,432	
	574,841		511,308	
Dividends declared by subsidiaries paid to minority interests		(16,062)		(14,169)
Dividends approved during the year		(4,155)		–
Movements in equity arising from capital transactions:				
Release of reserve upon lapse of share options		490		–
Shares issued under share option scheme		–		289
Total equity at 31 December		555,114		497,428

The notes on pages 35 to 72 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Operating activities					
Profit before taxation		53,405		32,906	
Adjustments for:					
Depreciation and amortization		35,217		33,001	
Impairment loss on intangible assets	5(c)	1,811		–	
Impairment losses on trade receivables	5(c)	125		815	
Finance costs	5(a)	1,378		1,258	
Interest income	4	(1,385)		(970)	
Loss on disposal of fixed assets	4	45		27	
Equity settled share-based payment expenses		490		–	
Foreign exchange loss		4,322		867	
Operating profit before changes in working capital		95,408		67,904	
Increase in inventories		(9,562)		(14,906)	
Decrease/(increase) in trade and other receivables		4,143		(29,904)	
(Increase)/decrease in time deposits		(7,958)		18,303	
Increase in restricted deposits		(31)		(1,498)	
Increase in trade and other payables		7,381		24,597	
Cash generated from operations		89,381		64,496	
PRC enterprise income tax paid		(19,709)		(12,881)	
Net cash generated from operating activities			69,672		51,615
Investing activities					
Payment for the purchase of fixed assets		(4,050)		(2,424)	
Payment for construction in progress		(1,211)		(169)	
Interest received		1,385		970	
Net cash used in investing activities			(3,876)		(1,623)

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Financing activities					
Proceeds from new bank loans		17,696		17,655	
Repayment of bank loans		–		(37,549)	
Proceeds from shares issued under share option scheme		–		289	
Interest paid		(1,378)		(1,258)	
Dividends paid to minority shareholders		(16,062)		(42,930)	
Dividends paid to equity shareholders of the Company		(4,155)		–	
Net cash used in financing activities			(3,899)		(63,793)
Net increase/(decrease) in cash and cash equivalents			61,897		(13,801)
Cash and cash equivalents at 1 January			82,364		89,919
Effect of foreign exchange rate changes			3,503		6,246
Cash and cash equivalents at 31 December	22		147,764		82,364

The notes on pages 35 to 72 form part of these accounts.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated accounts for the year ended 31 December 2008 comprise Wing Shan International Limited (the "Company") and its subsidiaries (together referred to as the "Group").

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is the historical cost basis except that financial instruments classified as available-for-sale securities are stated at their fair values as explained in accounting policy set out in note 1(e).

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and minority interests (Continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units and is tested annually for impairment (see note 1(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Investments in equity securities

The Group's investments in equity securities are classified as available-for-sale securities and are initially stated at cost, which is their transaction price plus attributable transaction costs unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently remeasured at each balance sheet date with any resultant gain or loss being recognized directly in equity. Dividend income from these investments is recognized in profit or loss in accordance with the policy set out in note 1(s)(iii). When these investments are derecognized or impaired (see note 1(j)), the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

(f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)). Rental income from investment properties is accounted for as described in note 1(s)(ii). Depreciation is provided over the properties' estimated useful lives on a straight-line basis. Estimated useful lives of investment properties are 25 to 50 years.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(u)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(u).

Gains or losses arising from the retirement or disposal of an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives.

– Plant, machinery and equipment	10-15 years
– Motor vehicles	5-10 years
– Others	2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents buildings and, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(j)). Cost comprises direct costs of construction as well as borrowing cost, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to borrowing costs, during the period of construction.

Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalized development costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(j)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

– product protection rights	Over the product protection period
– trademarks	50 years

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities (other than investments in subsidiaries) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

– For available-for-sale securities, the cumulative loss that has been recognized directly in equity is removed from equity and is recognized in profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

  Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets

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

- property, plant and equipment;
- investment properties;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- construction in progress;
- intangible assets;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1 (j)(i) and (ii)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment (Continued)

Impairment losses recognized in an interim period in respect of goodwill and available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of available-for-sale equity securities increases in the remainder of the annual period, or in any other period subsequently, the increase is recognized in equity and not profit or loss.

(k) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts (see note 1(j)), unless the effect of discounting would be immaterial. In such case, they are stated at cost less allowance for impairment of doubtful debts (see note 1(j)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employees benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employees benefits (Continued)

(ii) Share-based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

No benefit cost or obligation is recognized at the date of grant or exercise for share options granted on or before 7 November 2002 as the Group has taken advantage of the transitional provisions set out in HKFRS 2 "Share-based payment", under which the recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rate enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible difference, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iii) Dividends

Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

(v) Government grants

Government grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Translation of foreign currencies

For the purpose of presenting the consolidated accounts, the Group adopted Hong Kong dollars ("HKD") as its presentation currency. The functional currencies of the Company and the subsidiaries incorporated in Hong Kong are HKD and the functional currencies of the subsidiaries established in the PRC are Renminbi ("RMB").

Foreign currency transactions during the year are translated into the functional currency of the entity at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the foreign exchange rates ruling at the balance sheet date. Exchange gains and loss are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency of the entity using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into the presentation currency of the Group at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into the presentation currency of the Group at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated into the presentation currency of the Group at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in equity which relate to that foreign operation is included in the calculation of profit or loss on disposal.

(u) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(f)).

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Borrowing costs

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

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

(w) Related parties

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

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

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

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

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

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

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

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

(x) Segment reporting

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

The Group primarily operates in one business segment – manufacture and sale of pharmaceutical products. It operates principally in one geographical segment – the PRC. Substantially all of the Group's assets are located in the PRC. Accordingly, no analysis of the segment information is presented.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments is relevant to the Group's or the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

(Expressed in Hong Kong dollars unless otherwise indicated)

3 TURNOVER

The principal activities of the Group are manufacture and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax and sales tax and is analyzed as follows:

	2008 $'000	2007 $'000
Sales of pharmaceutical products		
– Pills and tablets	294,311	237,275
– Medicine wine	51,939	41,475
– Paste, granules and others	97,283	77,130
	443,533	355,880

4 OTHER REVENUE AND NET INCOME

	2008 $'000	2007 $'000
Other revenue		
Government grants	1,635	1,054
Interest income	1,385	970
Rental income	1,213	1,163
Dividend income from listed securities	–	37
	4,233	3,224
Other net income		
Exchange gain	794	48
Loss on disposal of fixed assets	(45)	(27)
Others	(1)	37
	748	58

Various government grants have been received for technological improvements and for research and development costs on new and existing pharmaceutical products. There are no unfulfilled conditions or contingencies relating to these grants. Government grants received for which related expenditure has not yet been incurred are accounted for as deferred income under "trade and other payables" in the consolidated balance sheet.

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2008 $'000	2007 $'000
(a)	Finance costs:		
	Interest on bank advances and other borrowings wholly repayable within five years	1,378	1,258
(b)	Staff costs:		
	Salaries, wages and other benefits	62,655	48,816
	Contributions to defined contribution retirement plans	2,357	2,015
		65,012	50,831
(c)	Other items:		
	Auditors' remuneration	1,870	1,641
	Depreciation and amortization		
	– assets held for use under operating leases	293	269
	– lease prepayments	621	568
	– other assets	18,649	17,837
	– intangible assets	15,654	14,327
	Impairment losses		
	– trade receivables	125	815
	– intangible assets	1,811	-
	Operating lease charges on buildings	373	475
	Research and development costs	2,054	1,257
	Rentals receivable from investment properties less direct outgoings	750	685
	Cost of inventories (note 19(b))	285,249	231,382

6 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(a) Taxation in the consolidated profit and loss account represents:

	2008 $'000	2007 $'000
Current tax		
PRC enterprise income tax for the year	11,558	15,092
Under-provision in respect of prior year	577	–
	12,135	15,092
Deferred tax		
Origination and reversal of temporary differences	(7,197)	(7,221)
	4,938	7,871

6 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT (Continued)

(a) Taxation in the consolidated profit and loss account represents: (Continued)

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the years ended 31 December 2008 and 2007.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax rate of the Group's subsidiaries, Foshan Dezhong Pharmaceutical Co., Ltd. ("DZH") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX") was 27% for the years prior to 31 December 2007. FLX was recognized as a new high technology enterprise pursuant to document "粵外經貿加證字458號" issued by The Department of Foreign Trade and Economic Cooperation of Guangdong Province and received approvals from the Foshan Tax Bureau for a three-year income tax reduction to 12% up to 31 December 2007. Hence, FLX was subject to PRC enterprise income tax at 12% for the year ended 31 December 2007.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to DZH and FLX changed from 27% to 25% with effect from 1 January 2008. The change in the carrying amount of the deferred tax liabilities as a result of the change in tax rate from 27% to 25% had been reflected in the consolidated accounts of the Group for the year ended 31 December 2007.

Pursuant to documents issued jointly by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of the State Administration of Taxation and Guangdong Provincial Local Taxation Bureau, DZH and FLX were recognized as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for a three-year period with effect from 1 January 2008. As a result of the change in tax rate to 15% for a three-year period, the change in the carrying amount of the current tax payable and deferred tax liabilities has been reflected in these consolidated accounts.

In addition, under the new tax law, the gross amount of dividends received by the Company from its PRC subsidiaries in respect of their profits generated after 1 January 2008 is subject to withholding tax at a rate of 5%. Under the grandfathering treatments, the undistributed profits of the PRC subsidiaries as at 31 December 2007 are exempted from withholding tax.

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

	2008 $'000	2007 $'000
Profit before taxation	53,405	32,906
Notional tax on profit before taxation, calculated at rates applicable to profit in the countries concerned	16,007	9,732
Tax effect on non-deductible expenses	1,623	1,897
Tax effect on non-taxable revenue	(165)	(54)
Effect on opening current and deferred tax balances resulting from the change in tax rate during the year	(6,422)	(1,207)
Income tax concessions	(8,159)	(2,497)
Withholding tax on undistributed profits of PRC subsidiaries	1,477	–
Under-provision in respect of prior year	577	–
Actual tax expense	4,938	7,871

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2008				
	Directors' fees $'000	Salaries and allowances $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Du Richeng	100	–	–	–	100
Lam Siu Hung	100	660	220	33	1,013
Situ Min	100	420	105	21	646
Li Songquan	100	420	105	21	646
Independent non – executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	100	–	–	–	100
	700	1,500	430	75	2,705

	2007				
	Directors' fees $'000	Salaries and allowances $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
He Haochang	100	105	61	5	271
Lam Siu Hung	100	624	165	31	920
Situ Min	100	420	88	21	629
Li Feng	100	315	79	16	510
Independent non – executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	100	–	–	–	100
	700	1,464	393	73	2,630

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

Of the five individuals with the highest emoluments, two (2007: two) are directors whose remuneration is disclosed in the above. Details of the emoluments of the remaining three (2007: three) individuals were as follows:

	2008 $'000	2007 $'000
Salaries and other emoluments	2,707	2,340
Retirement scheme contributions	–	–
	2,707	2,340

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

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

8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $8,121,000 (2007: $8,021,000) which has been dealt with in the accounts of the Company.

Reconcilation of the above amount to the Company's profit for the year:

	2008 $'000	2007 $'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's accounts	(8,121)	(8,021)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	16,803	14,775
Company's profit for the year (note 25(b))	8,682	6,754

9 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2008 $'000	2007 $'000
Final dividend proposed after the balance sheet date of 0.7 cent per ordinary share (2007: 0.5 cent per ordinary share)	11,399	4,155

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

(Expressed in Hong Kong dollars unless otherwise indicated)

9 DIVIDENDS (Continued)

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2008 $'000	2007 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.5 cent per ordinary share (2007: Nil per ordinary share)	4,155	–

10 EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of $20,330,000 (2007: $8,396,000) and the weighted average of 830,974,000 (2007: 830,526,069) ordinary shares in issue during the year.

(b) Diluted

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted earnings per share is not presented.

11 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 7, is as follows:

	2008 $'000	2007 $'000
Short-term employee benefits	4,312	3,837
Post-employments benefits	54	52
	4,366	3,889

Total remuneration is included in "staff costs" (see note 5(b)).

12 SEGMENT REPORTING

The Group primarily operates in one business segment – manufacture and sale of pharmaceutical products. It operates principally in one geographical segment – the PRC. Substantially all of the Group's assets are located in the PRC. Accordingly, no analysis of the segment information is presented.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS

	Buildings $'000	Plant, machinery and equipment $'000	Motor vehicles $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interests in leasehold land held for own use under operating leases $'000	The Group Total $'000
Cost:								
At 1 January 2007	68,674	130,523	3,646	36,965	239,808	10,656	27,511	277,975
Additions	–	432	794	1,198	2,424	–	–	2,424
Transfer from construction in progress (note 14)	–	25	–	–	25	–	–	25
Disposals	–	(24)	(795)	(513)	(1,332)	–	–	(1,332)
Exchange adjustments	5,214	9,820	214	2,794	18,042	806	2,070	20,918
At 31 December 2007	73,888	140,776	3,859	40,444	258,967	11,462	29,581	300,010
At 1 January 2008	73,888	140,776	3,859	40,444	258,967	11,462	29,581	300,010
Additions	–	1,046	–	3,004	4,050	–	–	4,050
Disposals	–	(286)	(451)	(47)	(784)	–	–	(784)
Exchange adjustments	4,620	8,767	209	2,553	16,149	718	1,849	18,716
At 31 December 2008	78,508	150,303	3,617	45,954	278,382	12,180	31,430	321,992
Accumulated depreciation and amortization:								
At 1 January 2007	22,744	45,359	2,875	21,972	92,950	2,993	3,384	99,327
Charge for the year	2,440	11,368	435	3,594	17,837	269	568	18,674
Written back on disposals	–	(4)	(795)	(506)	(1,305)	–	–	(1,305)
Exchange adjustments	1,820	3,905	174	1,769	7,668	237	280	8,185
At 31 December 2007	27,004	60,628	2,689	26,829	117,150	3,499	4,232	124,881
At 1 January 2008	27,004	60,628	2,689	26,829	117,150	3,499	4,232	124,881
Charge for the year	2,648	12,431	364	3,206	18,649	293	621	19,563
Written back on disposals	–	(279)	(406)	(47)	(732)	–	–	(732)
Exchange adjustments	1,723	3,951	108	1,770	7,552	223	272	8,047
At 31 December 2008	31,375	76,731	2,755	31,758	142,619	4,015	5,125	151,759
Net book value:								
At 31 December 2008	47,133	73,572	862	14,196	135,763	8,165	26,305	170,233
At 31 December 2007	46,884	80,148	1,170	13,615	141,817	7,963	25,349	175,129

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS (Continued)

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on a medium-term leases of 50 years in the PRC.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two years, at the end of which period all terms are renegotiated. One of the leases runs for twenty years with three months' notice for termination. Lease payments of this lease are gradually increased during the lease period to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2008 $'000	2007 $'000
Within 1 year	756	749

All investment properties of the Group were stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2008 is $13,734,000 (2007: $9,281,000) by reference to net rental income allowing for reversionary income potential. The valuation of the investment properties as at 31 December 2008 and 2007 was carried out by BMI Appraisals Limited, an independent firm of professional surveyors, and the directors respectively.

14 CONSTRUCTION IN PROGRESS

	The Group	
	2008 $'000	2007 $'000
At 1 January	144	–
Additions	1,211	169
Transfer to fixed assets (note 13)	–	(25)
Exchange adjustments	9	–
At 31 December	1,364	144

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTANGIBLE ASSETS

	The Group		
	Product protection rights $'000	Trademarks $'000	Total $'000
Cost:			
At 1 January 2007	65,075	36,617	101,692
Exchange adjustments	4,903	2,759	7,662
At 31 December 2007	69,978	39,376	109,354
At 1 January 2008	69,978	39,376	109,354
Exchange adjustments	4,375	2,462	6,837
At 31 December 2008	74,353	41,838	116,191
Accumulated amortization and impairment loss:			
At 1 January 2007	(3,253)	(215)	(3,468)
Amortization for the year	(13,438)	(889)	(14,327)
Exchange adjustments	(804)	(54)	(858)
At 31 December 2007	(17,495)	(1,158)	(18,653)
At 1 January 2008	(17,495)	(1,158)	(18,653)
Amortization for the year	(14,682)	(972)	(15,654)
Impairment loss for the year	(1,811)	–	(1,811)
Exchange adjustments	(1,282)	(85)	(1,367)
At 31 December 2008	(35,270)	(2,215)	(37,485)
Net book value:			
At 31 December 2008	39,083	39,623	78,706
At 31 December 2007	52,483	38,218	90,701

During the year, the directors assessed the recoverable amount of the Group's product protection right in respect of one of the pharmaceutical products and determined that it was impaired, because that pharmaceutical product was selling at a gross loss. Accordingly, an impairment loss of $1,811,000 (2007: Nil) was recognized. The recoverable amount of the product protection right was estimated based on its value in use. The estimate of value in use was determined using a discount rate of 13%.

The amortization charge and impairment loss for the year are included in "cost of sales" in the consolidated profit and loss account.

(Expressed in Hong Kong dollars unless otherwise indicated)

16 GOODWILL

	The Group 2008 $'000	2007 $'000
Cost and carrying amount:		
At 1 January	132,738	123,437
Exchange adjustments	8,299	9,301
At 31 December	141,037	132,738

Goodwill acquired through business combination is allocated to the Group's cash-generating units ("CGU") identified as follows:

	The Group 2008 $'000	2007 $'000
Manufacture and sale of pharmaceutical products – DZH	114,136	107,420
Manufacture and sale of pharmaceutical products – FLX	26,901	25,318
	141,037	132,738

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a one-year period and extrapolated to cover a period of nine more years with an estimated increase in selling prices and costs of 3% (2007: 3%) and no growth in sales volume. The rate used to discount the forecast cash flows is 13% (2007: 12%).

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the CGU to exceed the recoverable amount.

17 INTEREST IN SUBSIDIARIES

	The Company 2008 $'000	2007 $'000
Unlisted shares, at cost	223,569	223,569
Amounts due from subsidiaries	58,869	58,831
	282,438	282,400

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTEREST IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be recoverable within twelve months from the Company's balance sheet date and are therefore shown in the Company's balance sheet as non-current.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2008.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group accounts.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Lipromate Resources Limited	Hong Kong 14 December 2006	Ordinary HK$1	100%	–	Provision of financial and management services to the Group
Hensil Industrial Inc. Limited	Hong Kong 6 July 2007	Ordinary HK$1	100%	–	Investment holding
Hensil Trading & Investments Limited	Hong Kong 6 July 2007	Ordinary HK$1	100%	–	Investment holding
Foshan Dezhong Pharmaceutical Co., Ltd. (note (i))	The PRC 1 November 1998	US$5,760,000	–	51%	Manufacturing and sale of Chinese pharmaceutical products
Foshan Feng Liao Xing Pharmaceutical Co., Ltd. (note (i))	The PRC 16 March 2000	US$6,926,100	–	51%	Manufacturing and sale of Chinese pharmaceutical products
Dezhong Pharmaceutical (Hong Kong) Company Limited	Hong Kong 13 December 1999	Ordinary HK$2	–	51%	Dormant

Notes:

(i) DZH and FLX are sino-foreign equity joint ventures established pursuant to the law of the PRC on sino-foreign equity joint ventures. DZH and FLX have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

18 OTHER FINANCIAL ASSETS

	The Group 2008 $'000	2007 $'000
Available-for-sale equity securities		
– Listed in the PRC	2,743	3,953
Market value of listed securities	2,743	3,953

19 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group 2008 $'000	2007 $'000
Raw materials	35,554	29,254
Work in progress	17,007	16,793
Finished goods	21,504	19,230
	74,065	65,277
Packaging materials	5,680	4,990
Low value consumables	2,712	2,628
	82,457	72,895

(b) The analysis of the amount of inventories recognized as an expense is as follows:

	2008 $'000	2007 $'000
Cost of inventories sold	285,249	231,382

(Expressed in Hong Kong dollars unless otherwise indicated)

20 TRADE AND OTHER RECEIVABLES

	The Group 2008 $'000	2007 $'000	The Company 2008 $'000	2007 $'000
Trade and bills receivables	52,965	63,496	–	–
Less: allowance for doubtful debts (note 20(b))	(2,647)	(2,372)	–	–
	50,318	61,124	–	–
Deposits, prepayments and other receivables	18,172	11,509	5,996	570
	68,490	72,633	5,996	570

(a) Ageing analysis

Included in trade and other receivables are trade and bills receivables with the following ageing analysis as of the balance sheet date:

	The Group 2008 $'000	2007 $'000
Within 3 months of invoice date	41,651	52,110
3 to 6 months after invoice date	6,715	6,782
More than 6 months after invoice date	4,599	4,604
	52,965	63,496

Trade receivables are due within 30 to 90 days from the date of billing. All of the trade and other receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 29(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 1(j)(i)).

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group 2008 $'000	2007 $'000
At 1 January	2,372	3,034
Impairment loss recognized	125	815
Uncollectible amounts written off	–	(1,674)
Exchange adjustments	150	197
At 31 December	2,647	2,372

20 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade and bills receivables (Continued)

At 31 December 2008, the Group's trade receivables of $3,871,000 (2007: $3,153,000) were individually determined to be impaired. The individually impaired receivables related to receivables that were overdue more than one year and management assessed that only a portion of these receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $2,647,000 (2007: $2,372,000) were recognized. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2008 $'000	2007 $'000
Within 3 months of invoice date	40,856	51,566
3 to 6 months after invoice date	6,547	6,563
More than 6 months after invoice date	1,691	2,214
	49,094	60,343

As at 31 December 2008, receivables that were neither past due nor impaired individually amounted to $39,509,000 (2007: $50,484,000).

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

A writ of summons was served by DZH on Guangdong Guanghong Medicines Company Limited ("Guangdong Guanghong") in 2005 in respect of a claim for the payment of sales amount of goods sold to Guangdong Guanghong by DZH of approximately RMB1,345,000 (equivalent to $1,529,000) together with related interest.

On 15 November 2006, a judgement ("the Judgement") was issued by Foshan Chancheng District People's Court of Guangdong Province ("the People's Court") against Guangdong Guanghong for a sum of RMB1,345,000 together with interest. In response, Guangdong Guanghong filed an appeal against the Judgement. On 15 March 2007, Foshan Intermediate People's Court of Guangdong Province ("the Intermediate People's Court") issued a judgement whereby the validity of the Judgement against Guangdong Guanghong was revoked and the case was re-heard by the People's Court on 20 November 2007. On 4 March 2008, a judgement was issued by the People's Court in favour of DZH in respect of the above claim. On 25 March 2008, Guangdong Guanghong made an appeal to the Intermediate People's Court. On 2 December 2008, a final judgement was issued by the Intermediate People's Court in favour of DZH.

The directors are of the opinion that DZH has been successful in the above claim and no allowance for doubtful debts should be made on the outstanding debt of $1,529,000 which has been overdue more than one year.

21 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2008 $'000	2007 $'000
Provision for PRC enterprise income tax	(1,440)	5,864

(Expressed in Hong Kong dollars unless otherwise indicated)

21 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets/(liabilities) recognized

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Intangible assets $'000	Depreciation allowances in excess of related depreciation $'000	Allowance for impairment of doubtful debts $'000	Available-for-sale securities $'000	Withholding tax on undistributed profits of PRC subsidiaries $'000	Others $'000	Total $'000
Deferred tax arising from:							
At 1 January 2007	(25,852)	(10,380)	1,079	(268)	–	(2,288)	(37,709)
Effect of change in tax rate							
– credited/(charged) to consolidated profit and loss account	1,994	873	(68)	–	–	28	2,827
– credited to reserves	–	–	–	77	–	–	77
Credited/(charged) to consolidated profit and loss account	3,002	680	(238)	–	–	950	4,394
Charged to reserves	–	–	–	(717)	–	–	(717)
Exchange adjustments	(1,819)	(753)	71	(50)	–	(126)	(2,677)
At 31 December 2007	(22,675)	(9,580)	844	(958)	–	(1,436)	(33,805)
At 1 January 2008	(22,675)	(9,580)	844	(958)	–	(1,436)	(33,805)
Effect of change in tax rate							
– credited/(charged) to consolidated profit and loss account	4,756	962	(355)	–	–	603	5,966
– credited to reserves	–	–	–	407	–	–	407
Credited/(charged) to consolidated profit and loss account	2,669	475	15	–	(1,477)	(451)	1,231
Credited to reserves	–	–	–	216	–	–	216
Exchange adjustments	(1,387)	(592)	50	(57)	(19)	(88)	(2,093)
At 31 December 2008	(16,637)	(8,735)	554	(392)	(1,496)	(1,372)	(28,078)

(Expressed in Hong Kong dollars unless otherwise indicated)

22 CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	The Group 2008 $'000	2007 $'000	The Company 2008 $'000	2007 $'000
Deposits with banks	15,009	11,503	7,051	11,503
Cash at bank and in hand	140,713	70,861	10,637	1,690
Cash and cash equivalents in the balance sheet	155,722	82,364	17,688	13,193
Less: Deposits with bank matured beyond three months	(7,958)	–		
Cash and cash equivalents in the consolidated cash flow statement	147,764	82,364		

As at 31 December 2008, restricted deposits of $1,529,000 (2007: $1,498,000) were placed with the People's Court in relation to a claim lodged against a former customer. Further details of the claim are discussed in note 20(c).

23 TRADE AND OTHER PAYABLES

	The Group 2008 $'000	2007 $'000	The Company 2008 $'000	2007 $'000
Trade creditors	20,150	20,707	–	–
Other creditors and accrued charges	78,143	69,095	6,900	1,958
Advances received from customers	4,046	5,156	–	–
	102,339	94,958	6,900	1,958

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

	The Group 2008 $'000	2007 $'000
Due within 1 month or on demand	20,150	20,707

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

24 BANK LOANS

At 31 December 2008, the Group's bank loans are repayable as follows:

	The Group 2008 $'000	2007 $'000
Unsecured bank loans		
– Within 1 year or on demand	18,190	–

As at 31 December 2008, the bank loans are unsecured, interest-bearing at 7.84% per annum and repayable within one year.

25 CAPITAL AND RESERVES

(a) The Group

	Share capital (Note (c)) $'000	Share premium (Note (d)) $'000	Capital reserve (Note (h)) $'000	Capital redemption reserve (Note (d)) $'000	Exchange reserve (Note (e)) $'000	Reserve fund (Note (f)) $'000	Fair value reserve (Note (g)) $'000	(Accumulated losses)/ retained profits $'000	Total equity attributable to equity shareholders of the Company $'000	Minority interests $'000	Total equity $'000
At 1 January 2007	83,015	1,041,726	–	297	1,007	1,065	(304)	(833,548)	293,258	157,512	450,770
Reduction of share premium	–	(837,876)	–	–	–	–	–	837,876	–	–	–
Shares issued under share option scheme	82	207	–	–	–	–	–	–	289	–	289
Profit for the year	–	–	–	–	–	–	–	8,396	8,396	16,639	25,035
Available-for-sale securities											
– changes in fair value	–	–	–	–	–	–	1,453	–	1,453	1,396	2,849
– deferred tax impact (note 21(b))	–	–	–	–	–	–	(327)	–	(327)	(313)	(640)
Transfer to reserve	–	–	–	–	–	6,492	–	(6,492)	–	–	–
Dividends declared by subsidiaries paid to minority interests	–	–	–	–	–	–	–	–	–	(14,169)	(14,169)
Exchange differences on translation of accounts of PRC subsidiaries	–	–	–	–	21,052	74	(30)	–	21,096	12,198	33,294
At 31 December 2007	83,097	204,057	–	297	22,059	7,631	792	6,232	324,165	173,263	497,428

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL AND RESERVES (Continued)

(a) The Group (Continued)

	Share capital (Note (c)) $'000	Share premium (Note (d)) $'000	Capital reserve (Note (h)) $'000	Capital redemption reserve (Note (d)) $'000	Exchange reserve (Note (e)) $'000	Reserve fund (Note (f)) $'000	Fair value reserve (Note (g)) $'000	(Accumulated losses)/ retained profits $'000	Total equity attributable to equity shareholders of the Company $'000	Minority interests $'000	Total equity $'000
At 1 January 2008	83,097	204,057	–	297	22,059	7,631	792	6,232	324,165	173,263	497,428
Profit for the year	–	–	–	–	–	–	–	20,330	20,330	28,137	48,467
Available-for-sale securities											
– changes in fair value	–	–	–	–	–	–	(617)	–	(617)	(593)	(1,210)
– deferred tax impact (note 21(b))	–	–	–	–	–	–	318	–	318	305	623
Equity settled share-based transactions	–	–	490	–	–	–	–	–	490	–	490
Release upon lapse of share options	–	–	(490)	–	–	–	–	490	–	–	–
Transfer to reserve	–	–	–	–	–	10,237	–	(10,237)	–	–	–
Dividends declared by subsidiaries paid to minority interests	–	–	–	–	–	–	–	–	–	(16,062)	(16,062)
Dividends approved in respect of the previous year	–	–	–	–	–	–	–	(4,155)	(4,155)	–	(4,155)
Exchange differences on translation of accounts of PRC subsidiaries	–	–	–	–	18,414	328	31	–	18,773	10,760	29,533
At 31 December 2008	83,097	204,057	–	297	40,473	18,196	524	12,660	359,304	195,810	555,114

(b) The Company

	Share capital (Note (c)) $'000	Share premium (Note (d)) $'000	Capital reserve (Note (h)) $'000	Capital redemption reserve (Note (d)) $'000	(Accumulated losses)/ retained profits $'000	Total $'000
At 1 January 2007	83,015	1,041,726	–	297	(837,876)	287,162
Reduction of share premium	–	(837,876)	–	–	837,876	–
Shares issued under share option scheme	82	207	–	–	–	289
Profit for the year	–	–	–	–	6,754	6,754
At 31 December 2007	83,097	204,057	–	297	6,754	294,205
At 1 January 2008	83,097	204,057	–	297	6,754	294,205
Dividends approved in respect of the previous year	–	–	–	–	(4,155)	(4,155)
Profit for the year	–	–	–	–	8,682	8,682
Equity settled share-based transactions	–	–	490	–	–	490
Release upon lapse of share options	–	–	(490)	–	490	–
At 31 December 2008	83,097	204,057	–	297	11,771	299,222

25 CAPITAL AND RESERVES (Continued)

(c) Share capital

	2008 Number of shares '000	2008 Nominal value $'000	2007 Number of shares '000	2007 Nominal value $'000
Authorized:				
Ordinary shares of $0.10 each	3,000,000	300,000	3,000,000	300,000
Ordinary shares, issued and fully paid:				
At 1 January	830,974	83,097	830,146	83,015
Shares issued under share option scheme	–	–	828	82
At 31 December	830,974	83,097	830,974	83,097

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On 28 June and 21 August 2007, options were exercised to subscribe for 528,000 and 300,000 ordinary shares in the Company respectively at total consideration of $289,800, of which $82,800 was credited to share capital and the balance of $207,000 was credited to the share premium account.

Following the completion of the acquisition of new subsidiaries on 6 February 2009 as disclosed in note 30(a), 797,436,563 ordinary shares were issued after the balance sheet date.

(d) Share premium and capital redemption reserve

The application of the share premium account and capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

On 12 October 2007, the High Court of the HKSAR issued an order to confirm that accumulated losses of $837,876,000 would be offset by a corresponding reduction of the share premium account.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(t).

(f) Reserve fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the equity holders of the subsidiary. Reserve fund can only be used to make good losses, if any, and for increasing capital.

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date, and is dealt with in accordance with the accounting policy set out in note 1(e).

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL AND RESERVES (Continued)

(h) Capital reserve

The capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognized in accordance with the accounting policy adopted for share-based payments in note 1(p)(ii).

(i) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $11,771,000 (2007: $6,754,000). After the balance sheet date the directors proposed a final dividend of 0.7 cent (2007: 0.5 cent) per ordinary share, amounting to $11,399,000 (2007: $4,155,000). This dividend has not been recognized as a liability at the balance sheet date.

(j) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of an adjusted debt-to-equity ratio. For this purpose the Group defines debt as total debt (which includes trade and other payables and bank loans) plus unaccrued proposed dividends. Equity comprises all components of equity less unaccrued proposed dividends.

During 2008, the Group's strategy, which remains unchanged from 2007, is to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratio at 31 December 2008 and 2007 is as follows:

	The Group	
	2008 $'000	2007 $'000
Current liabilities:		
Trade and other payables	102,339	94,958
Bank loans	18,190	–
	120,529	94,958
Add: Proposed dividends	11,399	4,155
Adjusted debt	131,928	99,113
Total equity	555,114	497,428
Less: Proposed dividends	(11,399)	(4,155)
Adjusted equity	543,715	493,273
Adjusted debt-to-equity ratio	24%	20%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of $20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions. The aggregate of the mandatory and voluntary contributions made by the employer represents 5% of the basic salary of the employees. Mandatory contributions to the plan vest immediately. Where there are employees who leave the Group prior to vesting fully in the voluntary contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 22 May 2002 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited at the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest after six months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

No benefit cost or obligation is recognized at the date of grant or exercise for share options granted on 30 July 2002 as the Group has taken advantage of the transitional provisions set out in HKFRS 2 "Share-based payment", under which the recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002. On 30 January 2008, these 8,000,000 share options in total were lapsed.

On 2 January 2008, each of the three independent non-executive directors of the Company was granted 828,000 share options under the Company's share option scheme to subscribe for 828,000 ordinary shares. Pursuant to the amendments made to the share option scheme adopted on 22 May 2002, these share options vest immediately on 2 January 2008 and have an exercise period of five years. The exercise price is $0.434 per share, being the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant.

The fair value of the share options granted on 2 January 2008 of $490,000 was recognized as share-based compensation expenses in profit or loss during the year. On 19 March 2008, these 2,484,000 share options in total were lapsed following a mandatory unconditional cash offer for the shares of the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Exercise period	Exercise price	2008 '000	2007 '000
25 July 2002	25 January 2003 to 24 January 2008	$ 0.350	–	828
30 July 2002	30 January 2003 to 29 January 2008	$ 0.350	8,000	8,000
19 May 2003	22 November 2003 to 21 November 2008	$ 0.415	–	1,500
2 January 2008	2 January 2008 to 1 January 2013	$ 0.434	2,484	–
			10,484	10,328

All the above share options were granted to the directors.

(Expressed in Hong Kong dollars unless otherwise indicated)

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2008 Weighted average exercise price	2008 Number of shares '000	2007 Weighted average exercise price	2007 Number of shares '000
At 1 January	$0.350	8,000	$0.360	10,328
Granted during the year	$0.434	2,484	–	–
Exercised during the year	–	–	$0.350	(828)
Lapsed and cancelled	$0.370	(10,484)	$0.415	(1,500)
At 31 December	–	–	$0.350	8,000
Options vested at 31 December	–	–	$0.350	8,000

The weighted average share price at the date of exercise of share options exercised during the year ended 31 December 2007 was $0.66.

28 COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2008 not provided for in the accounts were as follows:

	The Group 2008 $'000	The Group 2007 $'000
Contracted for	291	–

(b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group 2008 $'000	The Group 2007 $'000
Within 1 year	–	330

Operating lease payments represent rentals payable by the Group for its office premises. The lease was negotiated for an average term of two years with fixed rental. The lease did not include any contingent rentals.

(Expressed in Hong Kong dollars unless otherwise indicated)

29 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2008, the Group has no concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2008			2007		
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000
Trade and other payables	102,339	(102,339)	(102,339)	94,958	(94,958)	(94,958)
Bank loans	18,190	(18,289)	(18,289)	–	–	–
	120,529	(120,628)	(120,628)	94,958	(94,958)	(94,958)

(Expressed in Hong Kong dollars unless otherwise indicated)

29 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

The Company

	2008 Carrying amount $'000	2008 Total contractual undiscounted cash flow $'000	2008 Within 1 year or on demand $'000	2007 Carrying amount $'000	2007 Total contractual undiscounted cash flow $'000	2007 Within 1 year or on demand $'000
Trade and other payables	6,900	(6,900)	(6,900)	1,958	(1,958)	(1,958)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the balance sheet date.

	2008 Effective interest rate %	2008 One year or less $'000	2007 Effective interest rate %	2007 One year or less $'000
Fixed rate borrowings:				
Bank loans	7.84%	18,190	–	–

The bank loans are issued at fixed rate and hence, no sensitivity analysis is presented.

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries, DZH and FLX, mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and reflect in the exchange reserve.

(Expressed in Hong Kong dollars unless otherwise indicated)

29 FINANCIAL INSTRUMENTS (Continued)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 18), which are listed on the Stock Exchange of Shenzhen, the PRC. The available-for-sale investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the balance sheet date.

	Increase/ (decrease) in share price	2008 Effect on equity $'000	2007 Effect on equity $'000
Market price of equity investments:	20%	466	593
	(20%)	(466)	(593)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(f) Fair values

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. Given these terms it is not meaningful to disclose their fair values.

All remaining financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

(g) Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

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

(h) Business risk

The Group is dependent on specific herb materials for its production of certain pharmaceutical products. At 31 December 2008, the Group has a certain concentration of business risk as 36% (2007: 20%) of the total purchases were made from the Group's five largest suppliers. If the Group could not purchase adequate quantity of specific herb materials from these suppliers and failed to identify alternative sources, its results and financial position could be adversely affected.

(Expressed in Hong Kong dollars unless otherwise indicated)

30 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Acquisition of subsidiaries

Pursuant to the approval by the independent shareholders at the extraordinary general meeting on 19 January 2009 and the completion of the acquisition on 6 February 2009, the Company acquired the entire equity interest in Smartpoint International Limited ("Smartpoint"). Smartpoint is an investment holding company and its principal assets are its 100% equity interests in each of Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World") and Shandong Lukang Pharmaceutical Group Luya Co., Ltd. ("Luya"). Each of Guangdong Medi-World and Luya is principally engaged in the manufacture and sale of pharmaceutical products in the PRC.

Following the completion of the acquisition on 6 February 2009, 797,436,563 ordinary shares were issued after the balance sheet date.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Recognized values on acquisition $'000
Fixed assets (including construction in progress)	191,381
Intangible assets	80,435
Other financial assets	1,458
Deferred tax assets	5,972
Inventories	28,326
Trade and other receivables	93,534
Current tax recoverable	768
Cash and cash equivalents	22,749
Trade and other payables	(34,196)
Bank loans	(87,105)
Deferred income on government grants	(8,268)
Deferred tax liabilities	(28,593)
Total net identifiable assets of the subsidiaries acquired	266,461
Add: Goodwill on acquisition	39,495
Consideration*	305,956
Satisfied by:	
Issue of consideration shares	220,000
Proceeds of placing new shares	70,000
Cash	15,956
	305,956

* *Includes legal and professional fees of $5,956,000.*

The valuation for the purpose of purchase accounting is preliminary and is subject to review by experts; thus, the allocation of the purchase price is subject to refinement.

(b) After the balance sheet date the directors proposed a final dividend of 0.7 cent per ordinary share, amounting to $11,399,000. This dividend has not been recognized as a liability at the balance sheet date. Further details are disclosed in note 9.

31 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the accounts. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the accounts. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the accounts.

(a) Impairment

If circumstances indicate that the net book value of fixed assets, construction in progress, intangible assets, interest in subsidiaries and goodwill may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognized in accordance with HKAS 36 "Impairment of assets". The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the recoverable amount is estimated annually to assess if the carrying amount may not be recoverable whether or not there is any indication of impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price, material costs and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, expected changes to selling prices and operating costs, and discount rate.

In addition, the Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Depreciation and amortization

Fixed assets and intangible assets are depreciated and amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortization expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write-down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition.

(Expressed in Hong Kong dollars unless otherwise indicated)

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these accounts.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the accounts, including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning on or after
HKFRS 8, Operating segments	1 January 2009
HKAS 1 (revised 2007), Presentation of financial statements	1 January 2009

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000
Results					
Turnover					
Pharmaceutical business	–	–	109,627	355,880	443,533
Electricity business	740,724	824,038	721,751	–	–
	740,724	824,038	831,378	355,880	443,533
Profit/(loss) from operations					
Pharmaceutical business	(5,817)	(5,892)	477	34,164	54,783
Electricity business	(41,215)	(800,911)	(459,078)	–	–
	(47,032)	(806,803)	(458,601)	34,164	54,783
Finance costs					
Pharmaceutical business	–	–	(6,358)	(1,258)	(1,378)
Electricity business	(20,892)	(18,555)	(15,476)	–	–
	(20,892)	(18,555)	(21,834)	(1,258)	(1,378)
Profit/(loss) before taxation					
Pharmaceutical business	(5,817)	(5,892)	(5,881)	32,906	53,405
Electricity business	(62,107)	(819,466)	(474,554)	–	–
	(67,924)	(825,358)	(480,435)	32,906	53,405
Income tax					
Pharmaceutical business	–	–	(510)	(7,871)	(4,938)
Electricity business	7,453	18,195	49,251	–	–
	7,453	18,195	48,741	(7,871)	(4,938)
Profit/(loss) for the year					
Pharmaceutical business	(5,817)	(5,892)	(6,391)	25,035	48,467
Electricity business	(54,654)	(801,271)	(425,303)	–	–
	(60,471)	(807,163)	(431,694)	25,035	48,467
Attributable to:					
– Equity shareholders of the Company	(55,857)	(762,579)	(337,401)	8,396	20,330
– Minority interests	(4,614)	(44,584)	(94,293)	16,639	28,137
	(60,471)	(807,163)	(431,694)	25,035	48,467
Earnings/(loss) per share					
Basic	(6.73) cents	(91.86) cents	(40.64) cents	1.01 cents	2.45 cents
Diluted	N/A	N/A	N/A	N/A	N/A

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000
Assets and liabilities					
Property, plant and equipment	1,217,978	1,041,826	146,858	141,817	135,763
Investment properties	–	–	7,663	7,963	8,165
Interests in leasehold land held for own use under operating leases	36,482	31,821	24,127	25,349	26,305
Construction in progress	–	–	–	144	1,364
Prepayment for planned maintenance	–	6,485	–	–	–
Intangible assets	–	–	98,224	90,701	78,706
Goodwill	578,319	–	123,437	132,738	141,037
Other financial assets	–	–	1,103	3,953	2,743
Deferred tax assets	12,856	31,725	–	–	–
Net current assets	22,414	94,786	87,067	128,568	189,109
Total assets less current liabilities	1,868,049	1,206,643	488,479	531,233	583,192
Bank loans	(78,607)	(100,000)	–	–	–
Other loans	(195,357)	(296,984)	–	–	–
Deferred tax liabilities	–	–	(37,709)	(33,805)	(28,078)
Net assets	1,594,085	809,659	450,770	497,428	555,114
Capital and reserves					
Share capital	83,015	83,015	83,015	83,097	83,097
Reserves	1,309,520	567,670	210,243	241,068	276,207
Total equity attributable to equity shareholders of the Company	1,392,535	650,685	293,258	324,165	359,304
Minority interests	201,550	158,974	157,512	173,263	195,810
Total equity	1,594,085	809,659	450,770	497,428	555,114