Sanyuan Group Limited
三元集團有限公司

Stock Code: 0140

08

Annual Report 2008

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Wu Kwai Yung
(Resigned on 30 March 2009)
Mr. Zhao Tie Liu *(Managing Director)*
Mr. Tso Hon Sai Bosco
(Appointed on 30 March 2009)
Mr. Yim Kai Pung
(Appointed on 30 March 2009)
Mr. Liu Kwok Leung Paul
(Appointed on 30 March 2009)

Independent Non-executive Directors:

Mr. Zhou Haijun
(Resigned on 30 March 2009)
Mr. Xu Zhi
Mr. Xu Quing Fah
(Appointed on 22 April 2008)
Mr. Wong Ting Kon
(Appointed on 30 March 2009)

COMPANY SECRETARY

Ms. Ho Suk Yin Nancy
(Appointed on 14 April 2008)

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank

SOLICITORS

P.C. Woo & Co.

AUDITORS

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

REGISTERED OFFICE

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

REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

EXECUTIVE DIRECTOR'S STATEMENT

To the shareholders,

Dear Sir or Madam,

I am delighted to report to you that the Group continue to record growth in turnover and total assets in 2008. Our pharmaceutical business in Tianjin, continue to perform well and made positive contribution to the revenue and results of the Group within the year under review.

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

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

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

Yours sincerely,
Tso Hon Sai Bosco
Executive Director

Hong Kong, 30 April 2009

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

During 2008, keen competition in the pharmaceutical market still existed and tight supervision over the drug prices by the government in the PRC remained the same. Despite of these, the Group still experienced improvements in our operations but under slight pressure in our financial position during the year under review.

FINANCIAL RESULTS

The 60% owned subsidiary of the Company in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") operated for a full calendar year. As a result, consolidated turnover recorded by the Group for the year ended 31 December 2008 was approximately HK$215,185,000 and increased by 29.9% from the previous year.

Administrative expenses increased by 7.1% to HK$10,035,000 (2007: HK$9,367,000) only, in spite of the impressive increase in turnover because of the various cost control measures adopted by the Company and the emoluments waived by certain Directors and managements.

Finance costs for the year ended 31 December 2008 was HK$5,744,000 (2007: HK$3,813,000) representing an increase of 50.6%. The increase was due to increase in bank borrowings to finance the PRC business.

Consolidated profit reported for the year was HK$370,000 as compared to a profit of HK$3,529,000 in 2007.

Loss per share for the year was HK(0.06) cents (2007: earnings per share of HK0.28 cents).

REVIEW OF OPERATIONS

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

In spite of the averse circumstances, the Group continued to distribute its existing products with resulted turnover increased to HK$215,185,000 which accounted for 100.0% (2007: 99.8%) of the total turnover of the Group.

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

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had total assets of approximately HK$117,402,000 (2007: HK$68,262,000), among which, HK$116,471,000 (2007: HK$67,170,000) were current assets comprised mainly of trade and other receivables of HK$91,712,000, bank balance and cash of HK$11,172,000.

Total liabilities of the Group amounted to approximately HK$129,703,000 (2007: HK$82,401,000). Among the total liabilities, HK$28,912,000 was the carrying amount of a HK$30 million zero-coupon convertible note (the "Note"). The Note was issued to Hong Jin Holdings Limited ("Hong Jin"), the controlling shareholder of the Company and will be mandatory and automatically converted into ordinary shares of the Company upon, inter alia, the trading of the shares of the Company resumes. On 23 April 2009, the maturity date of the Note has been further extended by Hong Jin to 30 September 2010. The other current liabilities included mainly bank borrowings of HK$27,667,000, trade and other payables of HK$57,945,000 and the provisions of HK$15,028,000 made in previous years for employee benefits and legal claims etc.

The financial position of the Group was under slight pressure during the year ended 31 December 2008. The gearing ratio (total liabilities as a percentage of total assets) decreased to 110.5% at the end of 2008 (As at 31 December 2007: 120.7%). Current ratio dropped from 116.8% to 89.8% as at 31 December 2008. Should the Note of HK$30,000,000 mentioned above be converted, the Group would probably improve from net liabilities position to net assets position.

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

CHARGES ON ASSETS

As at 31 December 2008, certain assets of the Group with aggregate carrying value of approximately HK$34,252,000 were pledged to secure the Group's borrowing as compared to HK$6,710,000 as at 31 December 2007.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 31 December 2008, the Group employed 40 employees in Hong Kong and the PRC. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and will be reviewed annually by the Remuneration Committee.

MANAGEMENT DISCUSSION & ANALYSIS

OUTLOOK

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

The management notes that the profit margins of the distribution of pharmaceutical products had been slightly improved. In order to improve the profitability of the Group and strengthen its competitiveness in the market, it is believed that the development and distribution of its own pharmaceutical products will be the long-term strategy for the Group to pursue. The Group is currently identifying various pharmaceutical products with potential to be invested and collaborating to ensure growth and improve profit margins. In addition, the Group has preliminary negotiation with a medical factory in PRC and after discussion with our Financial Advisor, we would plan to have cooperation and/or merger with the factory in order to expand our vertical integration both in product nature and turnover volume. Our resumption proposal was under progressed actively in final stage and target completion in early June 2009. We expect our plan would have positive effect in our future profit forecast.

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

Trading in the shares of the Company has been suspended at the request of the Company since 13 May 2004. According to Rule 13.24 of the Listing Rules, the Company should carry out, directly or indirectly, a sufficient operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of its shares. A proposal was submitted to the Stock Exchange to warrant the Company's compliance with Rule 13.24. After reviewing the Company's proposal, the Stock Exchange decided that the proposal was not viable. The Company has applied to the Court of First Instance have the decision of the Stock Exchange reviewed, on 4 June, 2008 the court ordered the decision of the Listing Appeals Committee of the Stock Exchange to reject the Company's application for resumption of trading be quashed. The decision of the court is under appeal by the Stock Exchange. The Company is currently in the process of obtaining professional advice and discussing with its professional advisors on the appropriate actions to be taken by the Company to resolve the matter with the Stock Exchange in achieving the resumption of trading of its shares. Further announcement(s) will be made by the Company in respect of this matter as and when appropriate.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhao Tie Liu, aged 51, is an Executive Director and the Managing Director of the Company. Mr. Zhao graduated from Tianjin University of Finance and Economics with a Bachelor degree of Economics in 1984 and obtained a Master degree in Business Administration from Oklahoma City University, the United States of America in 1990. Since then, Mr. Zhao had held positions in Tianjin University of Finance and Economics as lecturer, the Department of Accounting as deputy dean, and as division director of the Futures Supervision Division and Intermediary Supervision Division of China Securities Regulatory Commission at the Tianjin Regulatory Bureau. From early 2001 to the end of 2003, Mr. Zhao was the president of Weida Medical Applied Technology Company Limited ("Weida") and was responsible for overseeing the operation of Weida and formulating its overall corporate strategy. He joined the Company in 2004 and was responsible for the successful establishment of the subsidiary of the Company, Tianjin Jinshun Pharmaceutical Co. Ltd. ("Tianjin Jinshun") in 2005, as well as the upgrading and expansion of its business.

Mr. Tso Hon Sai Bosco, aged 44, is currently a consultant with Messrs. Tso Au Yim & Yeung, Solicitors and he has been a Hong Kong practising solicitor since 1990. Mr. Tso received his bachelor of laws degree from King's College, London. Mr. Tso was an executive director of Tiger Tech Holdings Limited which is listed on The Stock Exchange of Hong Kong Limited. Mr. Tso is currently an independent non-executive director of Fortuna International Holdings Limited, Neolink Cyber Technology (Holding) Limited and Rising Development Holdings Limited, all are companies listed on The Stock Exchange of Hong Kong Limited.

Mr. Yim Kai Pung, aged 44, holds a Bachelor degree of Accountancy with honours from City University of Hong Kong and is an associate member of Hong Kong Institute of Certified Public Accountants and fellow member of The Association of Chartered Certified Accountants of the United Kingdom. He has over 18 years of experience in auditing, taxation and provision of finance consultancy services for companies in Hong Kong and the PRC. Mr. Yim is presently a sole proprietor of David Yim & Co., Certified Public Accountants. He was an executive director of Tiger Tech Holdings Limited, which is a company listed on the Stock Exchange of Hong Kong Limited. Mr. Yim is currently an independent non-executive director of Macau Success Limited, which is a company listed on the Stock Exchange of Hong Kong Limited.

Mr. Liu Kwok Leung Paul, aged 39, had finished his study at Lingnan University and Joined Kwan Wong Tan & Fong CPA firm in 1989. Mr. Liu is currently working in a local audit firm as audit manager. Mr. Liu has over 19 years' experience in accounting, auditing and financial management.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Zhi, aged 36, is an Independent Non-executive Director of the Company. Mr. Xu graduated from Hangzhou Institute of Electronic Engineering with a Bachelor degree in Economics in 1993. Mr. Xu is a certified public accountant and a certified public tax agent in the PRC as well as an international certified internal auditor. Mr. Xu has extensive experience in auditing PRC companies, both listed and unlisted. He is at present a department manager of a PRC consulting firm which provides quantitative surveying services for building materials. Mr. Xu jointed the Company in 2004.

Mr. Xu Quing Fah, aged 46, is an Independent Non-executive Director of the Company. Mr, Xu graduated from the Tianjin Finance & Economics University. Since 1985, Mr. Xu had held positions in different banks, namely, People's Bank of China, China Merchants Bank, Everbright Bank and had gained experience in the areas of internal audit, credit control, international affairs, general bankings and management. At the moment, he is the Executive Director, Senior Assistant General Manager of Synergy Capital International Limited. Mr Xu wrote many financial and banking articles which were published in different journals in China. He also served as members of many financial interest groups in China. Mr. Xu joined the Company in 2008.

Mr. Wong Ting Kon, aged 38, holds a Bachelor degree in Commerce from University of Windsor. Canada. He is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Accountants. He is currently a Partner of Chan Wong & Company C.P.A. Mr. Wong was an independent non-executive director of Zhong Hua International Holding Limited, which is a company listed on The Stock Exchange of Hong Kong Limited.

SECRETARY

Ms. Ho Suk Yin Nancy, aged 58, is the Company Secretary of the Company. Miss Ho is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Institute of Chartered Secretaries and Administrators in UK. Miss Ho has extensive experience in auditing, financial accounting, general management and corporate finance.

SENIOR MANAGEMENT

Mr. Zeng Zhi Liang, aged 37, is the director of Tianjin Jinshun. Mr. Zeng graduated from South China University of Science and Technology with a Diploma in Computer and Application. Mr. Zeng also holds a Diploma in Business Administration from Huazhong University of Science and Technology in 2004. Before joining the Group, Mr. Zeng was the deputy manager of the customer service department of the Hotung branch of the Agricultural Bank of China. Mr. Zeng has extensive experience in bank accounting, money management and customer service. Mr. Zeng's primary responsibility in Tianjin Jinshun is to assist in bank affairs and finance related matters, as well as with investor and customer relationships. He joined the Group in 2005.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhao Geng, aged 46, is the director and a deputy general manager of Tianjin Jinshun. Mr. Zhao graduated in 1984 from the School of Pharmacy of the former Tianjin Second Medical College (now known as Tianjin Medical University). During 1984 to 1993, Mr. Zhao taught in the School of Pharmacy at the Tianjin Medical University as a lecturer. During 1993 to 2003, he worked as a business manager of Tianjin Zhongyao Group. Prior to the establishment of Tianjin Jinshun in 2005, Mr. Zhao was the business manager of the Tianjin Shi Yi Yao Company Jin Shun Branch Company. He was appointed as a director of Tianjin Jinshun in September 2005 and is responsible for marketing pharmaceutical products and supervision of the sales team. His specialties are antibiotics, paranteral nutritions and neurocardiovascular drugs. Mr. Zhao is well known in the Tianjin pharmaceutical business and has been dealing with the local government pharmaceutical regulatory units, hospitals and drug wholesalers/retailers since 1993. Based on his experience, Mr. Zhao's responsibilities at Tianjin Jinshun are marketing and as well as tenders. Mr. Zhao joined the Group in 2005.

Mr. Zhang Wei, aged 47, the director and a deputy general manager of Tianjin Jinshun. Mr. Zhang holds a Master degree of Business Administration from Tianjin Polytechnic University in the PRC. During 1982–2003, Mr. Zhang worked for various pharmaceutical companies and has more than 17 years of experience in dealing pharmaceutical products from drug manufacturers worldwide. From 2003 until joining Tianjin Jinshun in 2005, he worked as a business manager at Tianjin Shi Yi Yao Company Jin Shun Branch Company. Mr. Zhang is well known in the Tianjin pharmaceutical business and has extensive experience in the marketing of pharmaceuticals and the obtaining of dealership rights from foreign drug manufacturers which the Company believes will be invaluable to the future success of Tianjin Jinshun. Mr. Zhang joined the Group in 2005 and is responsible for marketing pharmaceutical products, supervision of the sales team and preparing tenders.

Ms. Guan Jun, aged 54, a deputy general manager of Tianjin Jinshun. Ms. Guan is a licensed pharmacist in the PRC, which entitles her to control and/or manage a drug business independently. She graduated with a chemistry degree from Tianjin Nankai University in 1983. In 1992, she studied at the School of Pharmacy at the former Tianjin Second Medical College (now known as Tianjin Medical University). Ms. Guan joined the People's Liberation Army in 1970 and worked in drug units of different Army medical units for more than 30 years. She has extensive experience in the manufacturing, distribution, usage and quality control of pharmaceuticals. Ms. Guan joined the Group in 2005 and is responsible for quality control and Good Supply Practice of pharmaceutical products of Tianjin Jinshun.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report together with the audited financial statements of Sanyuan Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in pharmaceutical/healthcare business. The principal activities and other particulars of the principal subsidiaries are set out on page 61.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2008, the five largest suppliers of the Group accounted for approximately 32.39% of the Group's total purchases while the five largest customers of the Group accounted for approximately 46.30% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 8.75% of the Group's total purchases whilst the largest customer of the Group accounted for approximately 15.49% of the Group's total turnover. None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or the five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 23 of this annual report.

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

The Board of Directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2008 (2007: NIL).

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

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

	As at/For the year ended 31 December				
	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000 (Restated)	2004 HK$'000 (Restated)
Results					
Turnover	**215,185**	165,676	144,383	11,207	1,169
Profit from operations	**6,849**	8,639	3,979	12,544	225,898
Finance costs	**(5,744)**	(3,813)	(4,494)	(266)	(9,641)
Profit/(Loss) before income tax	**1,105**	4,826	(515)	12,278	216,257
Income tax	**(735)**	(1,297)	(969)	–	–
Profit/(Loss) for the year	**370**	3,529	(1,484)	12,278	216,257
(Loss)/Profit attributable to equity holders of the Company	**(600)**	2,657	(2,421)	12,278	217,547
Assets and liabilities					
Property, plant and equipment	**931**	1,092	549	600	643
Net current (liabilities)/assets	**(13,232)**	9,649	(22,492)	(26,162)	(48,589)
Non current liabilities	**–**	(24,880)	–	–	–
Net liabilities	**(12,301)**	(14,139)	(21,943)	(25,562)	(47,946)
Capital and reserves					
Share capital	**19,078**	19,078	19,078	19,078	19,078
Reserves	**(47,077)**	(47,082)	(52,409)	(50,409)	(67,024)
Total equity attributable to equity shareholders of the Company	**(27,999)**	(28,004)	(33,331)	(31,331)	(47,946)
Minority interests	**15,698**	13,865	11,388	5,769	–
	(12,301)	(14,139)	(21,943)	(25,562)	(47,946)

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of share capital of the Company are set out in note 25(c) to the accompanying financial statements.

CONVERTIBLE NOTE

Details of the convertible note issued by the Company are set out in note 21 to the accompanying financial statements.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 24 to the accompanying financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 25(b) to the accompanying financial statements respectively. In the opinion of the Directors, the Company had no reserves available for distribution to equity shareholders at 31 December 2008 (2007: NIL).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2008.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the accompanying financial statements.

FIXED ASSETS

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

BORROWINGS

Particulars of borrowings as at 31 December 2008 are set out in note 19 to the accompanying financial statements.

BORROWING COST CAPITALISATION

No borrowing cost was capitalised by the Group during the year (2007: NIL).

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive:

Mr. Wu Kwai Yung *(Resigned on 30 March 2009)*
Mr. Zhao Tie Liu *(Managing Director)*
Mr. Tso Hon Sai Bosco *(Appointed on 30 March 2009)*
Mr. Yim Kai Pung *(Appointed on 30 March 2009)*
Mr. Liu Kwok Leung Paul *(Appointed on 30 March 2009)*

Independent Non-executive:

Mr. Zhou Haijun *(Resigned on 30 March 2009)*
Mr. Xu Zhi
Mr. Xu Quing Fah (Appointed on 22 April 2008)
Mr. Wong Ting Kon (Appointed on 30 March 2009)

In accordance with article 103 of the Company's Articles of Association, Messrs. Zhao Tie Liu, Xu Quing Fah, and Wong Ting Kon retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

According to article 94 of the Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at such meeting. Mr. Wu Kwai Yung resigned on 30 March 2009, Messrs Tso Hon Sai Bosco, Yim Kai Pung, Liu and Kwok Leung Paul were appointed on 30 March, 2009 as executive directors. Mr. Wong Ting Kon was appointed as Independent Non-executive director on 30 March 2009.

The appointments of the three Independent Non-executive Directors are not for specific terms. They are subject to retirement by rotation in accordance with the Company's Articles of Association. Mr. Zhou Haijun resigned on 30 March 2009 and his position was filled by Mr. Wong Ting Kon on the same day.

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

REPORT OF THE DIRECTORS

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2008, the following interests (whether direct or indirect) of 5% or more of the Shares comprised in the share capital of the Company were recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to section 336 of the SFO:

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

Notes:

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

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

According to the register of interests in shares and short positions kept by the Company under section 336 of the SFO and so far as was known to the Directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 31 December 2008, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board,
Tso Hon Sai Bosco
Executive Director

Hong Kong, 30 April 2009

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

BOARD OF DIRECTORS

As at 31 December 2008, the Board consists of seven Directors. Four of them were Executive Directors, namely Mr. Zhao Tie Liu, Mr. Tso Hon Sai Bosco, Mr. Yim Kai Pung and Mr. Lui Kwok Leung Paul and the remaining three were Independent Non-executive Directors, namely Mr. Xu Zhi, Mr. Xu Quing Fah and Mr. Wong Ting Kon.

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

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

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

CORPORATE GOVERNANCE REPORT

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

Executive Directors	Attended
Mr. Wu Kwai Yung *(Resigned on 30 March 2009)*	9(9)
Mr. Zhao Tie Liu	9(9)
Independent Non-executive Directors	
Mr. Zhou Haijun *(Resigned on 30 March 2009)*	3(9)
Mr. Xu Zhi	3(9)
Mr. Xu Quing Fah *(Appointed on 22 April 2008)*	3(9)

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

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

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

MANAGING DIRECTOR

Mr. Wu Kwai Yung resigned as the Chairman of the Board on 30 March 2009 and Mr. Zhao Tie Liu is the Managing Director of the Company. There is a clear distinction between the responsibilities of the Chairman and the Managing Director. The primary responsibilities of the Chairman are leading the Board and ensuring the Board operates effectively. The Managing Director is responsible for managing the business of the Group and overseeing the day-to-day operation of the Group. With the resignation of Mr. Wu as Chairman, the members of the board will share the responsibilities of the role of chairman jointly.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee was established in April 2005 and comprises two Independent Non-executive Directors and one Executive Director. As at 31 December 2008, the members of the Remuneration Committee were as follows:

Mr. Zhou Haijun *(Resigned on 30 March 2009)*	*(Member, Independent Non-executive Director)*
Mr. Xu Zhi	*(Member, Independent Non-executive Director)*
Mr. Zhao Tie Liu	*(Member, Executive Director)*

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

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

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

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

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

The remuneration package and policy of the Company primarily consist fixed base salary, discretionary bonus and share options. Details of emoluments of the Directors for the year are disclosed in note 8 to the financial statements.

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

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE REPORT

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

Mr. Zhou Haijun	*(Chairman, Independent Non-executive Director, resigned on 30 March 2009)*
Mr. Xu Zhi	*(Independent Non-executive Director)*
Mr. Xu Quing Fah	*(Member, Independent Non-executive Director-appointed on 22 April 2008)*
Mr. Wong Ting Kon	*(Member, Independent Non-executive Director-appointed on 30 March 2009)*

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

Independent Non-executive Directors	**Attended**
Mr. Zhou Haijun *(Resigned on 30 March 2009)*	3
Mr. Xu Zhi	3
Mr. Xu Quing Fah	3
In attendance	
Mr. Zhao Tie Liu	3
External auditors	2
Ho Suk Yin Nancy (Secretary to the audit committee)	3

In these meetings, the Audit Committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the years ended 31 December 2005, 2006, 2007 and 2008, together with the unaudited interim financial statements for the period ended 30 June 2006, 2007 and 2008. At the request of the committee, the Group's external auditors have been engaged to carry out the audit of the audited annual financial statements and the review of the unaudited interim financial statements.

NOMINATION OF DIRECTORS

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

During the year, the company recorded the following resignations:

Mr. Wu Kwai Yung	*(Chairman – resigned on 30 March 2009)*
Mr. Zhou Haijun	*(Independent Non-Executive Directors – resigned on 30 March 2009)*

CORPORATE GOVERNANCE REPORT

As at the date of the issue of this Report, Mr. Wong Ting Kon was appointed as Independent Non-executive Director on 30 March 2009:

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

CCIF CPA Limited were appointed the Auditors of the Company and its subsidiaries, the annual financial statements for the year ended 31 December 2008 have been audited by them. During 2008, audit fee incurred by the Group amounted to approximately HK$450,000. Non-audit services fee which was related to review services amounted to approximately HK$250,000.

FINANCIAL REPORTING AND INTERNAL CONTROL

Statements about the respective responsibilities of the Directors and Auditors on the preparation of the financial statements are set out in the Independent Auditor's Report. The Directors acknowledge that they are responsible for preparing the financial statement for the year ended 31 December 2008 and the financial statements have been prepared on a going concern basis.

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

INDEPENDENT AUDITOR'S REPORT

CCIF

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SANYUAN GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Sanyuan Group Limited (the "Company") set out on pages 23 to 92, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT *(Continued)*

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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.

Without qualifying our opinion, we draw attention to note 2(b) to the financial statements which indicates that the Group incurred a consolidated loss attributable to equity shareholders of the Company of HK$600,000 during the year ended 31 December 2008 and, as of that date, the Group reported consolidated net current liabilities and net liabilities of HK$13,232,000 and HK$12,301,000 respectively. These conditions, along with other matters as set forth in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 30 April 2009

Sze Chor Chun, Yvonne
Practising Certificate Number P05049

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	4	**215,185**	165,676
Cost of sales		**(204,805)**	(159,192)
Gross profit		**10,380**	6,484
Other revenue	5	**1,311**	5,067
Other net income	5	**6,424**	7,295
Distribution costs		**(1,231)**	(840)
Administrative expenses		**(10,035)**	(9,367)
Profit from operations		**6,849**	8,639
Finance costs	6(a)	**(5,744)**	(3,813)
Profit before taxation	6	**1,105**	4,826
Income tax	7	**(735)**	(1,297)
Profit for the year		**370**	3,529
Attributable to:			
Equity shareholders of the Company	10	**(600)**	2,657
Minority interests		**970**	872
Profit for the year		**370**	3,529
Dividends		**–**	–
(Loss)/earnings per share	11		
Basic and diluted		**(HK0.06 cents)**	HK0.28 cents

The notes on pages 29 to 92 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	*13(a)*	**931**	1,092
Current assets			
Inventories	*15*	**12,406**	7,036
Trade and other receivables	*16*	**91,712**	51,125
Pledged bank deposits	*17*	**1,181**	681
Cash and cash equivalents	*18*	**11,172**	8,328
		116,471	67,170
Current liabilities			
Bank borrowings	*19*	**27,667**	5,951
Trade and other payables	*20*	**57,945**	35,688
Convertible note	*21*	**28,912**	–
Provisions	*22*	**15,028**	14,964
Current taxation	*23(a)*	**151**	918
		129,703	57,521
Net current (liabilities)/assets		**(13,232)**	9,649
Total assets less current liabilities		**(12,301)**	10,741
Non-current liabilities			
Convertible note	*21*	**–**	(24,880)
Net liabilities		**(12,301)**	(14,139)
Capital and reserves	*25(a)*		
Share capital		**19,078**	19,078
Reserves		**(47,077)**	(47,082)
Total equity attributable to equity shareholders of the Company		**(27,999)**	(28,004)
Minority interests		**15,698**	13,865
Total equity		**(12,301)**	(14,139)

Approved and authorised for issue by the board of directors on 30 April 2009.

TSO HON SAI BOSCO	**YIM KAI PUNG**
Director	*Director*

The notes on pages 29 to 92 form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13(b)	**50**	76
Investments in subsidiaries	14	**–**	–
		50	76
Current assets			
Other receivables	16	**221**	760
Due from subsidiaries	14	**13,713**	13,470
Pledged bank deposits	17	**50**	50
Cash and cash equivalents	18	**2,223**	15
		16,207	14,295
Current liabilities			
Other payables	20	**5,148**	5,567
Due to a subsidiary	14	**7,596**	7,596
Convertible note	21	**28,912**	–
Provisions	22	**15,028**	14,964
		56,684	28,127
Net current liabilities		**(40,477)**	(13,832)
Total assets less current liabilities		**(40,427)**	(13,756)
Non-current liabilities			
Convertible note	21	**–**	(24,880)
Net liabilities		**(40,427)**	(38,636)
Capital and reserves	25(b)		
Share capital		**19,078**	19,078
Reserves		**(59,505)**	(57,714)
Total equity		**(40,427)**	(38,636)

Approved and authorised for issue by the board of directors on 30 April 2009.

TSO HON SAI BOSCO	**YIM KAI PUNG**
Director	*Director*

The notes on pages 29 to 92 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity shareholders of the Company										
	Share Capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Special capital reserve HK$'000	Exchange reserve HK$'000	Statutory common reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(33,331)	11,388	(21,943)
Exchange differences on translation of financial statements of a subsidiary	–	–	–	–	–	1,634	–	–	1,634	–	1,634
Adjustment of amortised cost of convertible note	–	–	1,036	–	–	–	–	–	1,036	–	1,036
Profit for the year	–	–	–	–	–	–	–	2,657	2,657	872	3,529
Capital contribution received by an non-wholly-owned subsidiary from minority shareholders	–	–	–	–	–	–	–	–	–	1,605	1,605
Appropriation	–	–	–	–	–	–	99	(99)	–	–	–
At 31 December 2007	19,078	34,123	5,373	200	22,853	2,055	187	(111,873)	(28,004)	13,865	(14,139)
At 1 January 2008	19,078	34,123	5,373	200	22,853	2,055	187	(111,873)	(28,004)	13,865	(14,139)
Exchange differences on translation of financial statements of a subsidiary	–	–	–	–	–	605	–	–	605	863	1,468
Profit for the year	–	–	–	–	–	–	–	(600)	(600)	970	370
Appropriation	–	–	–	–	–	–	158	(158)	–	–	–
At 31 December 2008	19,078	34,123	5,373	200	22,853	2,660	345	(112,631)	(27,999)	15,698	(12,301)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**1,105**	4,826
Adjustments for:			
Interest income		**(483)**	(1,654)
Realised gain on disposal of financial assets at fair value through profit or loss		**–**	(1,302)
Property, plant and equipment written off		**–**	19
Gain on disposal of property, plant and equipment		**–**	(105)
Depreciation		**270**	237
Impairment loss reversed in respect of trade and other receivables		**–**	(16)
Waiver of balances by other payables		**(261)**	(1,546)
Waiver of amounts due to directors		**(6,163)**	–
Gain on adjustment of amortised cost of convertible note		**–**	(4,326)
Imputed interest on convertible note		**4,032**	3,698
Interest expenses		**1,712**	103
Operating profit/(loss) before changes in working capital		**212**	(66)
Increase in inventories		**(5,370)**	(2,255)
Increase in trade and other receivables		**(40,587)**	(20,587)
Increase in trade and other payables		**28,681**	11,461
Increase/(decrease) in provisions		**64**	(2,438)
Cash used in operations		**(17,000)**	(13,885)
Income tax paid – PRC		**(1,532)**	(550)
NET CASH USED IN OPERATING ACTIVITIES		**(18,532)**	(14,435)
INVESTING ACTIVITIES			
Interest received		**483**	1,654
Proceeds from disposal of property, plant and equipment		**–**	200
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	1,574
Payment for the purchase of property, plant and equipment		**(59)**	(872)
New loan receivable		**–**	(5,049)
Repayment from loan receivable		**–**	5,132
Increase in pledged bank deposits		**(500)**	(631)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(76)**	2,008

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
FINANCING ACTIVITIES			
Capital contribution received by an non-wholly-owned subsidiary from minority shareholders		–	1,605
Proceeds from new bank borrowings		**50,110**	6,145
Repayment of bank borrowings		**(27,520)**	(2,890)
Interest paid		**(1,712)**	(103)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**20,878**	4,757
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,270**	(7,670)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**7,181**	13,180
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**1,721**	1,671
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	*18*	**11,172**	7,181

The notes on pages 29 to 92 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

1. GENERAL INFORMATION

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

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

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Trading of the shares of the Company on the Stock Exchange has been suspended since 13 May 2004. The appeal of judicial review in respect of delisting of the Company's shares is fixed to be heard before the Court of Appeal of the Hong Kong Special Administrative Region on 9 July 2009.

The functional currency of the major subsidiary is Renminbi ("RMB"), the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars ("HK$"), the presentation currency for the consolidated financial statements. All financial information in HK$ has been rounded to the nearest thousand.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements 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 financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on 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 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Material uncertainties in respect of going concern

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

The Group sustained a consolidated loss attributable to equity shareholders of the Company of approximately HK$600,000 (2007: profit of approximately HK$2,657,000) for the year ended 31 December 2008. At 31 December 2008, the Group had net current liabilities and net liabilities of approximately HK$13,232,000 (2007: net current assets of approximately HK$9,649,000) and approximately HK$12,301,000 (2007: approximately HK$14,139,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

(i) Hong Jin Holdings Limited ("Hong Jin"), the parent and ultimate holding company of the Company in which former director Mr. Wu Kwai Yung held 70% beneficial interest, has agreed to extend the maturity date of convertible note with principal amount of HK$30,000,000 (note 21) to not earlier than 30 September 2010, subject to the approval from the Stock Exchange and independent shareholders of the Company;

(ii) Hong Jin has committed to provide financial support to enable the Group to meet in full its liabilities as they fall due, both present and future;

(iii) Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun"), the 60% subsidiary of the Group, is engaged in the trading of pharmaceutical products and the business of which formed the major business activities for the Group as a whole. The directors believe that the future cash flow generated from Tianjin Jinshun will sufficiently improve the liquidity and financial position and will help to maintain the Group's ability to continue as a going concern; and

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

In the opinion of the directors, when the above-mentioned measures are successfully implemented, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

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

(c) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost convention.

The preparation of financial statements 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 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 not readily apparent from other sources. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of preparation of the financial statements *(Continued)*

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(d) 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 financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised 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 income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 2(l) depending on the nature of the liability.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 2(g)(ii)), unless the investment is classified as held for sale.

(e) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated impairment losses *(see note 2(g)(ii))*.

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 proceeds on disposal and the carrying amount of the item and are recognised 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:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) 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 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.

(ii) Operating lease charges

Where the Group has the use of assets 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 recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets

(i) Impairment of trade receivables

Trade receivables and other financial assets that are stated at cost or amortised cost 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 reorganisation; and

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

If any such evidence exists, any impairment loss is determined and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the 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 amortised 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 financial assets with credit risk characteristics similar to the collective group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

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

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 recognised, 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 recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors 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 debtors 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 recognised in profit or loss.

(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 recognised no longer exists or may have decreased:

– property, plant and equipment; and

– investments in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell 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 the 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 recognised 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 recognised 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*

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, 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 note 2(g)(i) and (ii))*.

(h) Inventories

Inventories are carried at the lower of cost and net realisable 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 realisable 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 recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts *(see note 2(g)(i))*.

(j) 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 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Convertible note

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

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

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

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

(n) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at 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 expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised 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 recognised 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 accumulated losses).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) 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 recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates 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 utilised, are recognised. 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 that 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 differences 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 utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from 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 differences, unless it is probable that they will reverse in the future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation 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 utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 realise 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Provisions and contingent liabilities

Provisions are recognised 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.

(q) 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 recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered 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 and returns.

(ii) Laboratory testing service income

Laboratory testing service income is recognised in the period when services are rendered.

(iii) Interest income

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

(iv) Subsidy income

Subsidy income is recognised as revenue when there is reasonable assurance that it will be received.

(v) Guarantee income

Guarantee income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

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

(s) 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 capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

For the purposes of these financial statements, parties are 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.

(u) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting *(Continued)*

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

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

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

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

[1] *Effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS*

[2] *Effective for annual periods beginning on or after 1 January 2009*

[3] *Effective for annual periods beginning on or after 1 July 2009*

[4] *Effective for annual periods beginning on or after 1 July 2008*

[5] *Effective for annual periods beginning on or after 1 October 2008*

[6] *Effective for transfers on or after 1 July 2009*

HKAS 1 Revised affects certain disclosures of the financial statements. Under the revised standard, the Profit and Loss Account is renamed as the "Income Statement", the Balance Sheet is renamed as the "Statement of Financial Position" and the Cash Flow Statement is renamed as the "Statement of Cash Flows". All income and expenses arising from transactions with non-owners (i.e., the non-owner movements of equity) are presented under the "Income Statement" and "Statement of Comprehensive Income", and the total carried to the "Statement of Changes in Equity", while the owner changes in equity are presented in the "Statement of Changes in Equity".

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control which will be accounted for as equity transaction.

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER

Turnover represents the sales value of goods supplied to customers and revenue arising on provision of laboratory testing services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2008 **HK$'000**	2007 HK$'000
Sales of pharmaceutical products	**215,185**	165,397
Laboratory testing services income	**–**	279
	215,185	165,676

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

5. OTHER REVENUE AND OTHER NET INCOME

	2008 HK$'000	2007 HK$'000
Other revenue		
Interest income	**483**	1,654
Total interest income on financial assets not at fair value through profit or loss	**483**	1,654
Guarantee income	**–**	3,028
Subsidy income	**206**	367
Consultancy income	**538**	–
Others	**84**	18
	1,311	5,067
Other net income		
Impairment loss reversed in respect of trade and other receivables	**–**	16
Gain on adjustment of amortised cost of convertible note *(note 21)*	**–**	4,326
Gain on disposal of property, plant and equipment	**–**	105
Realised gain on disposal of financial assets at fair value through profit or loss	**–**	1,302
Waiver of balances by other payables	**261**	1,546
Waiver of amounts due to directors	**6,163**	–
	6,424	7,295

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

		2008 HK$'000	2007 HK$'000
(a)	**Finance costs**		
	Interest on other borrowing wholly repayable within five years	–	26
	Interest on bank borrowings wholly repayable within five years	1,712	77
	Imputed interest on convertible note *(note 21)*	4,032	3,698
	Other finance charges	–	12
	Total interest expense on financial liabilities not at fair value through profit or loss	5,744	3,813
(b)	**Staff costs**		
	Salaries, wages and other benefits	1,962	2,879
	Contributions to defined contribution retirement plans	77	79
		2,039	2,958
(c)	**Other items**		
	Auditor's remuneration		
	– audit services	450	500
	– other services	250	265
		700	765
	Cost of inventories *(note 15)*	204,805	159,192
	Depreciation for property, plant and equipment	270	237
	Operation lease charges: minimum lease payments	801	934
	Net foreign exchange loss	16	389
	Property, plant and equipment written off	–	19

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2008 HK$'000	2007 HK$'000
Current tax		
Hong Kong	–	–
PRC Enterprise Income Tax	765	1,047
	765	1,047
(Over)/underprovision in respect of prior years		
Hong Kong	–	–
PRC Enterprise Income Tax	(30)	250
	(30)	250
	735	1,297

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/09. No Hong Kong Profits Tax has been provided for in the financial statements as the Group has no assessable profits for the year (2007: HK$Nil).

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in the British Virgin Islands.

The PRC subsidiary, Tianjin Jinshun is subject to PRC Enterprise Income Tax at 25% (2007:33%).

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations has changed the tax rate from 33% to 25% for a subsidiary, from 1 January 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Profit before taxation	**1,105**	4,826
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**451**	1,383
Tax effect of non-deductible expenses	**1,042**	903
Tax effect of non-taxable income	**(1,085)**	(1,890)
Tax effect of deductible temporary differences not recognised in prior years	**(4)**	(13)
Tax effect of utilisation of unused tax losses not recognised in prior years	**–**	(1)
Tax effect of unused tax losses not recognised	**361**	665
(Over)/under provision in prior years	**(30)**	250
Actual tax expense	**735**	1,297

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. DIRECTORS' EMOLUMENTS

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

		Year ended 31 December 2008			
Name of directors	*Note*	**Directors' fees**	**Salaries, allowances and benefits in kind**	**Retirement scheme contributions**	**Total**
		HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Executive directors					
Mr. Wu Kwai Yung	*(v)*	–	–	6	6
Mr. Zhao Tie Liu		–	–	12	12
Independent non-executive directors					
Mr. Zhou Haijun		–	–	–	–
Mr. Xu Zhi		–	–	–	–
Mr. Xu Quing Fah	*(iv)*	–	–	–	–
		–	–	18	18

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. DIRECTORS' EMOLUMENTS *(Continued)*

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

Note:

(i) resigned on 3 April 2007.

(ii) resigned on 1 October 2007.

(iii) resigned on 17 December 2007.

(iv) appointed on 22 April 2008.

(v) resigned on 30 March 2009.

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

As at the balance sheet dates, no share options were held by directors of the Company. The details of the share options scheme are set out in note 24 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. DIRECTORS' EMOLUMENTS *(Continued)*

(b) During the year, certain directors and managements personnel waived emoluments of HK$497,000 (2007: HK$246,000) as follows:

	2008 HK$'000	2007 HK$'000
Mr. Wu Kwai Yung	**114**	30
Mr. Zhao Tie Liu	**168**	105
Mr. Zhou Haijun	**80**	–
Mr. Xu Zhi	**80**	–
Mr. Xu Quing Fah	**55**	–
Dr. Wan Kwong Kee	**–**	29
Mr. Leung Hon Man	**–**	82
	497	246

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none (2007: two) is director of the Company whose emolument is included in note 8(a) above. The aggregate of the emoluments of the remaining five (2007: three) individuals are as follows:

	2008 HK$'000	2007 HK$'000
Salaries, wages and other benefits in kind	**784**	457
Contributions to retirement benefits schemes	**27**	20
	811	477

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of HK$1,791,000 (2007: HK$1,448,000) which has been dealt with in the financial statements of the Company.

11. (LOSS)/EARNINGS PER SHARE

(a) Basic

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$600,000 (2007: profit of HK$2,657,000) and the weighted average number of 953,906,963 ordinary shares (2007: 953,906,963 ordinary shares) in issue during the year.

(b) Diluted

Diluted (loss)/earnings per share is equal to basic (loss)/earnings per share as there were no dilutive ordinary shares outstanding for both years presented.

12. SEGMENT REPORTING

(a) Business segments

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

(b) Geographical segments

All of the activities of the Group are based in the PRC and all of the Group's turnover and (loss)/profit before taxation are derived from the PRC. Accordingly, no geographical segment information is presented.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Motor vehicles HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Total HK$'000
Cost			
At 1 January 2007	124	2,455	2,579
Additions	780	92	872
Disposals	–	(2,060)	(2,060)
Exchange adjustments	9	25	34
At 31 December 2007 and 1 January 2008	913	512	1,425
Additions	–	59	59
Exchange adjustments	52	20	72
At 31 December 2008	**965**	**591**	**1,556**
Accumulated depreciation			
At 1 January 2007	19	2,011	2,030
Charge for the year	108	129	237
Written back on disposals	–	(1,946)	(1,946)
Exchange adjustments	5	7	12
At 31 December 2007 and 1 January 2008	132	201	333
Charge for the year	169	101	270
Exchange adjustments	12	10	22
At 31 December 2008	**313**	**312**	**625**
Carrying amount			
At 31 December 2008	**652**	**279**	**931**
At 31 December 2007	781	311	1,092

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

(b) The Company

	Leasehold improvements, furniture and fixtures HK$'000
Cost	
At 1 January 2007	640
Additions	91
Disposals	(634)
At 31 December 2007 and 31 December 2008	**97**
Accumulated depreciation	
At 1 January 2007	597
Charge for the year	58
Written back on disposals	(634)
At 31 December 2007 and 1 January 2008	21
Charge for the year	26
At 31 December 2008	**47**
Carrying amount	
At 31 December 2008	**50**
At 31 December 2007	76

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

14. INTERESTS IN SUBSIDIARIES

The Company

	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**1,000**	1,000
Impairment losses	**(1,000)**	(1,000)
	–	–
Amounts due from subsidiaries	**85,899**	85,656
Impairment losses	**(72,186)**	(72,186)
	13,713	13,470
Amount due to a subsidiary	**(7,596)**	(7,596)

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Note: (Continued)

(b) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Beadle International Limited	BVI	HK	US$1	100%	100%	–	Investment holding
GenePro Medical Biotechnology Limited ("GenePro")	HK	HK	HK$1,000,000	100%	100%	–	Inactive
Ontex Investment Limited	HK	HK	HK$2	100%	100%	–	Provision of administrative service
Tianjin Jinshun*	PRC	PRC	RMB30,000,000	60%	–	60%	Trading of pharmaceutical products

* *Registered under the laws of PRC as a sino-foreign equity Joint-venture enterprise.*

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

15. INVENTORIES

The Group

	2008 HK$'000	2007 HK$'000
Finished goods	**12,406**	7,036

Note:

a) The analysis of the amount of inventories recognised as an expenses is as follows:

	2008 HK$'000	2007 HK$'000
Carrying amount of inventories sold	**204,805**	159,192

16. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Trade receivables	**88,899**	49,094	**–**	–
Less: allowance for doubtful debts	**(24)**	(24)	**–**	–
	88,875	49,070	**–**	–
Other receivables	**37**	74	**19**	–
Due from a minority shareholder of a subsidiary	**1,241**	–	**–**	–
Loans and receivables	**90,153**	49,144	**19**	–
Prepayments and deposits	**1,559**	1,981	**202**	760
	91,712	51,125	**221**	760

16. TRADE AND OTHER RECEIVABLES *(Continued)*

All of the trade and other receivables (including amount due from a minority shareholder of a subsidiary) are expected to be recovered within one year.

Included in trade receivables is HK$160,000 (2007: HK$266,000) and HK$297,000 (2007: HK$70,000) due from a minority shareholder of a subsidiary and a related company respectively.

(a) Ageing analysis

Trade receivables are net of allowance for doubtful debts of HK$24,000 (2007: HK$24,000) with the following ageing analysis as of the balance sheet date:

The Group

	2008 HK$'000	2007 HK$'000
Within 90 days	**62,244**	40,270
91 days to 180 days	**23,321**	5,551
181 days to 365 days	**2,571**	3,246
Over 365 days	**739**	3
	88,875	49,070

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period ranging from 30 to 180 days (2007: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Further details on the Group's credit policy is set out in note 26(a).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

16. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade receivables

Impairment losses in respect of trade debtors 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 debtors directly *(see note 2 (i))*.

Movements in the allowance for doubtful debts

The Group

	2008	2007
	HK$'000	HK$'000
At 1 January	**24**	40
Impairment loss recognised	**–**	–
Amount reversed during the year	**–**	(16)
At 31 December	**24**	24

Note:

(i) As at 31 December 2008, trade receivables of the Group amounting to HK$24,000 (2007: HK$24,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 365 days as at the balance sheet date or were due from companies with financial difficulties. The Group does not hold any collateral over these balances.

The factors which the Group considered in determining whether these trade receivables were individually impaired include, for example, the following:

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

16. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade receivables that are not impaired

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

The Group

	2008 **HK$'000**	2007 HK$'000
Neither past due nor impaired	**85,565**	45,821
Less than 6 months past due	**2,571**	3,246
Over 6 months past due	**739**	3
	3,310	3,249
	88,875	49,070

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

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

(d) Certain trade receivables with an aggregate carrying amounts of approximately HK$33,071,000 (2007: HK$6,029,000) are pledged to a bank for bank loans *(note 19)* granted to the Group *(note 29)*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

17. PLEDGED BANK DEPOSITS

The amounts are pledged to banks for bills payable *(note 20(b))* granted to the Group and to secure corporate credit card account of the Group respectively *(note 29)*.

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**11,172**	8,328	**2,223**	15
Cash and cash equivalents in the balance sheet	**11,172**	8,328	**2,223**	15
Bank overdraft *(note 19)*	**–**	(1,147)		
Cash and cash equivalents in the consolidated cash flow statement	**11,172**	7,181		

19. BANK BORROWINGS

The Group

	2008	2007
	HK$'000	HK$'000
Bank loans, secured	**27,667**	4,804
Bank overdraft, unsecured *(note 18)*	**–**	1,147
	27,667	5,951

At 31 December 2008, the bank borrowings were repayable as follows:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

19. BANK BORROWINGS *(Continued)*

The Group

	2008 HK$'000	2007 HK$'000
Within 1 year or on demand	**27,667**	5,951

At 31 December 2008, the Group has total banking facilities amounting to HK$31,194,000 (2007: HK$23,787,000) of which HK$27,667,000 (2007: HK$4,804,000) of bank loans and HK$3,527,000 (2007: HK$1,231,000) of bills payable *(note 20(b))* have been utilised. The bank loans bear interest ranging from 5.544% to 6.831% (2007: 6.48%) per annum and have been fully settled subsequent to the balance sheet date. The balances were secured by certain trade receivables of the Group with an aggregate carrying amounts of approximately HK$33,071,000 (2007: HK$6,029,000) *(notes 16(d) and 29)*. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings.

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Trade payables *(note (a))*	**41,598**	17,926	–	–
Bills payable *(note (b))*	**3,527**	1,231	–	–
Other payables and accruals	**6,805**	3,312	**5,148**	2,646
Amounts due to directors *(note (c))*	–	2,921	–	2,921
Amounts due to minority shareholders of a subsidiary *(note (d))*	**6,015**	10,298	–	–
Financial liabilities measured at amortised cost	**57,945**	35,688	**5,148**	5,567

All of the trade and other payables (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

Included in trade payables is HK$2,252,000 (2007: HK$234,000) due to a related company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

20. TRADE AND OTHER PAYABLES *(Continued)*

Note:

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

The Group

	2008	2007
	HK$'000	HK$'000
Within 90 days	**33,238**	16,323
91 days to 180 days	**6,331**	970
181 days to 365 days	**1,408**	264
Over 365 days	**621**	369
	41,598	17,926

(b) As at 31 December 2008, bills payable were secured by certain bank deposits of the Group with an aggregate carrying amounts of approximately HK$1,131,000 (2007: HK$631,000) *(note 17 and 29)* and properties of certain staff *(note 27(d) and (e))*.

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

	The Group and the Company	
	2008	2007
	HK$'000	HK$'000
Name of director		
Mr. Wu Kwai Yung	–	1,236
Mr. Zhao Tie Liu	–	1,173
Mr. Zhou Haijun	–	162
Mr. Ng Wai Hung	–	190
Mr. Xu Zhi	–	160
	–	2,921

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

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

21. CONVERTIBLE NOTE

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

On 7 April 2006, Hong Jin had exercised its discretion to extend the maturity date of the Note to 7 December 2007. On 6 December 2007, Hong Jin had further extended the maturity date of the Note to 31 March 2009 and accordingly, a gain on adjustment of amortised cost of convertible note of approximately HK$4,326,000 was recognised. Subsequently on 23 April 2009, Hong Jin further extended the maturity date of the Note to 30 September 2010. The Note had not been converted during the years ended 31 December 2008 and 2007.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

21. CONVERTIBLE NOTE *(Continued)*

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

The Group and The Company

	HK$'000
Liability component at 1 January 2007	26,544
Accrued interest capitalised up to the date of amendment	3,445
	29,989
Gain on adjustment of amortised cost of convertible note *(note 5)*	(4,326)
Equity component	(1,036)
Adjusted balance	24,627
Accrued interest capitalised from amendment date to balance sheet date	253
Liability component at 31 December 2007 and 1 January 2008	24,880
Accrued interest capitalised during the year *(Note 6(a))*	4,032
Liability component at 31 December 2008	28,912

	2008 **HK$'000**	2007 HK$'000
Analysed for reporting purposes as:		
Current liability	**28,912**	–
Non-current liability	**–**	24,880
	28,912	24,880

Interest expense on the Note is calculated using the effective interest method by applying the effective interest rate of 14.00% per annum from 1 January 2007 to 6 December 2007 and 16.16% per annum from 7 December 2007 to 31 December 2008 for the liability component.

22. PROVISIONS

The Group and The Company

	Legal claims *(note (a))* HK$'000	Employee benefits HK$'000	Other *(note (b))* HK$'000	Total HK$'000
At 1 January 2007	11,400	152	5,850	17,402
Charged to the income statement	–	37	–	37
Used during the year	(2,400)	(75)	–	(2,475)
At 31 December 2007 and 1 January 2008	9,000	114	5,850	14,964
Charged to the income statement	–	79	–	79
Used during the year	–	(15)	–	(15)
At 31 December 2008	9,000	178	5,850	15,028

Note:

(a) Legal claims

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

22. PROVISIONS *(Continued)*

Note: (Continued)

(a) Legal claims *(Continued)*

(i) *(Continued)*

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

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

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

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

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

22. PROVISIONS *(Continued)*

Note: (Continued)

(b) Other

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

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

23. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

The Group

	2008 HK$'000	2007 HK$'000
Provision for the year		
– Hong Kong Profits Tax	**–**	–
– PRC Enterprise Income Tax	**765**	1,047
Provision for prior year		
– Hong Kong Profits Tax	**–**	–
– PRC Enterprise Income Tax	**918**	421
Provisional tax paid		
– Hong Kong Profits Tax	**–**	–
– PRC Enterprise Income Tax	**(1,532)**	(550)
	151	918

(b) Deferred tax assets not recognised

At the balance sheet date, the Group and the Company have unused tax losses of HK$118,852,000 (2007: HK$116,662,000) and HK$107,141,000 (2007: HK$104,951,000) respectively, available for offset against future profits that may be carried forward indefinitely. No deferred tax assets has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

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

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

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

  (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of the grant;

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

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

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

During the years ended 31 December 2008 and 2007, no option has been granted under the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

25. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company										
	Share Capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Special capital reserve HK$'000	Exchange reserve HK$'000	Statutory common reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(33,331)	11,388	(21,943)
Exchange differences on translation of financial statements of a subsidiary	–	–	–	–	–	1,634	–	–	1,634	–	1,634
Adjustment of amortised cost of convertible note	–	–	1,036	–	–	–	–	–	1,036	–	1,036
Profit for the year	–	–	–	–	–	–	–	2,657	2,657	872	3,529
Capital contribution received by an non-wholly-owned subsidiary from minority shareholders	–	–	–	–	–	–	–	–	–	1,605	1,605
Appropriation	–	–	–	–	–	–	99	(99)	–	–	–
At 31 December 2007	19,078	34,123	5,373	200	22,853	2,055	187	(111,873)	(28,004)	13,865	(14,139)
At 1 January 2008	19,078	34,123	5,373	200	22,853	2,055	187	(111,873)	(28,004)	13,865	(14,139)
Exchange differences on translation of financial statements of a subsidiary	–	–	–	–	–	605	–	–	605	863	1,468
Profit for the year	–	–	–	–	–	–	–	(600)	(600)	970	370
Appropriation	–	–	–	–	–	–	158	(158)	–	–	–
At 31 December 2008	19,078	34,123	5,373	200	22,853	2,660	345	(112,631)	(27,999)	15,698	(12,301)

25. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Special capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	19,078	34,123	4,337	200	44,556	(140,518)	(38,224)
Adjustment of amortised cost of convertible note	–	–	1,036	–	–	–	1,036
Loss for the year	–	–	–	–	–	(1,448)	(1,448)
At 31 December 2007 and 1 January 2008	19,078	34,123	5,373	200	44,556	(141,966)	(38,636)
Loss for the year	–	–	–	–	–	(1,791)	(1,791)
At 31 December 2008	19,078	34,123	5,373	200	44,556	(143,757)	(40,427)

(c) Share capital

	2008 HK$'000	2007 HK$'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.02 each	**2,000,000**	2,000,000
Issued and fully paid:		
953,906,963 (2007: 953,906,963) ordinary shares of HK$0.02 each	**19,078**	19,078

There was no movement in the share capital of the Company for the current and prior years.

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 meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

25. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium

The application of share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

(ii) Capital reserve

The capital reserve represents the value of the unexercised equity component of convertible note issued by the Company recognised in accordance with the accounting policy adopted for convertible note in note 2(m).

(iii) Special capital reserve

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

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

25. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iii) Special capital reserve (Continued)

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

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

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

During the year, no provisions for diminution in value of investment in subsidiaries and inter-company balances as prescribed in the Order were recovered. Up to 31 December 2008 the Company has credited approximately HK$44,556,000 (2007: HK$44,556,000) to the special capital reserve, which reduced the overall aggregate limit of special capital reserve with the same amount. Such amount was further reduced by the issue of share capital of HK$47,000,000 in 2004. As a result, the maximum amount to be credited to the special capital reserve was reduced to approximately HK$898,764,000 (2007: HK$898,764,000).

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(r).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

25. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(v) Statutory common reserve

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

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

(e) Distributability of reserves

At 31 December 2008 and 2007, the Company has no reserves available for distribution to equity shareholders of the Company.

(f) 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 and to maintain an optimal capital.

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.

During the year, the Group monitors capital on the basis of a net debt to adjusted equity ratio, which was unchanged from the previous year. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "adjusted equity", as shown in the consolidated balance sheet, plus net debt.

The net debt to adjusted equity ratio did not apply as at 31 December 2008 and 2007 as the Group had total deficit for both years. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce existing debts upon successful resumption of trading of shares.

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

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and convertible note. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

(i) As at 31 December 2008, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowances.

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

(iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. As at the balance sheet date, the Group has a certain concentration of credit risk as approximately 28% (2007: 25%) and 60% (2007: 48%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively. The Group's customers are mainly public hospitals in the PRC which the Group considers they have reliable credit standing. Taking into account the creditworthiness of the Group's customers and the past history of settlement, the credit risk measures and the historical levels of the bad debts, the directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

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

(a) Credit risk *(Continued)*

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group monitors closely the credit ratings of these counterparties and will take appropriate action when their rating change.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available un-utilised banking facilities of approximately HK$Nil (2007: HK$17,752,000), details of which are disclosed in note 19.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

(b) Liquidity risk *(Continued)*

	2008				2007			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000
The Group								
Bank borrowings	27,667	(27,667)	(27,667)	–	5,951	(5,951)	(5,951)	–
Trade and other payables	57,945	(57,945)	(57,945)	–	35,688	(35,688)	(35,688)	–
Convertible note	28,912	(30,000)	(30,000)	–	24,880	(30,000)	(4,032)	(25,968)
	114,524	(115,612)	(115,612)	–	66,519	(71,639)	(45,671)	(25,968)
The Company								
Other payables	5,148	(5,148)	(5,148)	–	5,567	(5,567)	(5,567)	–
Due to a subsidiary	7,596	(7,596)	(7,596)	–	7,596	(7,596)	(7,596)	–
Convertible note	28,912	(30,000)	(30,000)	–	24,880	(30,000)	(4,032)	(25,968)
	41,656	(42,744)	(42,744)	–	38,043	(43,163)	(17,195)	(25,968)

(c) Interest rate risk

(i) *Exposure to interest rate risk*

The Group's interest rate risks arise primarily from its borrowings and convertible note. Borrowings and convertible note obtained 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.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk mainly concentrates on the fluctuation of market interest rate arising from the Group's bank deposits.

The Group is exposed to interest rate risk as its bank deposits are all interest-bearing. All bank deposits are short-term deposits with maturities less than or equal to three months. Management does not anticipate any significant impact resulting from the change in interest rates because the Group's bank balances are carried at low interest rates and the interest income thereon is not significant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

(c) Interest rate risk *(Continued)*

(i) Exposure to interest rate risk (Continued)

Interest rate profile

The following table details the interest rate profile of the Group's and the Company's borrowings at the balance sheet date:

	The Group				The Company			
	2008 Effective Interest rates %	**2008 HK$'000**	2007 Effective Interest rates %	2007 HK$'000	**2008 Effective Interest rates %**	**2008 HK$'000**	2007 Effective Interest rates %	2007 HK$'000
Fixed rate borrowings:								
Bank borrowings	**5.544%-6.831%**	**27,667**	6.48%	5,951	**–**	**–**	–	–
Convertible note	**16.16%**	**28,912**	16.16%	24,880	**16.16%**	**28,912**	16.16%	24,880
Variable rate borrowings								
Bank borrowings	**–**	**–**	–	–	**–**	**–**	–	–
Total borrowings		**56,579**		30,831		**28,912**		24,880
Net fixed rate borrowings as a percentage of total net borrowings		**100%**		100%		**100%**		100%

(ii) Sensitivity analysis

All of the bank borrowings and convertible note of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the balance sheet date would not affect profit or loss and therefore, no sensitivity analysis presented.

(d) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's transactional currency is mainly RMB as substantially all of the turnover are in RMB. The Group's transactional foreign exchange exposure was insignificant.

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

(d) Currency risk *(Continued)*

All the Group's monetary financial instruments are denominated in the functional currency of the Group's entities to which they relate. Given this, management does not expect that there will be any currency risk associated with the Group's recognised assets and liabilities.

As the exchange rate risks to the Group is not significant and therefore, no sensitively analysis presented.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 because of the immediate or short term maturity of the financial instruments.

(f) Estimation of fair values

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

27. MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in the financial statements, the Group also entered into the following related party transactions during the year.

Name of related company	Nature of related party relationship	Nature of transaction	Term and pricing policies	Amount paid to/ (received from) the related parties 2008 HK$'000	2007 HK$'000
天津市河西區北方大藥房 (“北方大藥房”)	Minority shareholder of a subsidiary	Sales	*(Note (i))*	**(205)**	–
		Guarantee income	*(Note (iii))*	**–**	(1,514,000)
天津太平(集團)有限公司 (“天津太平”)	*(note (ii))*	Sales	*(Note (i))*	**(7,879)**	–
		Purchases	*(Note (i))*	**17,910**	5,543
天津國津投資有限公司	Minority shareholder of a subsidiary	Guarantee income	*(Note (iii))*	**–**	(1,514,000)

Notes:

(i) These transactions were conducted in the normal commercial terms and conditions.

(ii) Mr. 宋建國 is the common legal representative of 天津太平 and 天津市醫藥公司. 天津市醫藥公司 is the minority shareholder of a subsidiary, Tianjin Jinshun.

(iii) Mutually agreed by the parties concerned.

(b) On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, former director of the Company and former director of such wholly-owned subsidiary, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with a monthly rental of HK$11,250. On 31 March 2006, the tenancy agreement was further extended to 30 September 2006 with monthly rental remaining unchanged. The tenancy agreement was not renewed after 30 September 2006 and the property was still occupied by the wholly-owned subsidiary up to 15 April 2007. During the year, the wholly-owned subsidiary paid rental expenses to Dr. Wan Kwong Kee of HK$Nil (2007: HK$39,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

27. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) During the year, the office premises occupied by Tianjin Jinshun were provided by the key management personnel of Tianjin Jinshun, Mr. Zhao Geng and Mr. Zhang Wei's spouse free-of-charge. The open market rental value of the office premises of Tianjin Jinshun for the year ended 31 December 2008 estimated by Mr. Zhao Geng and Mr. Zhang Wei was HK$119,000 (2007: HK$79,000).

(d) As at 31 December 2008, a property of a staff, Ms. 趙偉, has been pledged to a bank for bills payable of approximately HK$1,266,000 (equivalent to approximately RMB1,120,000) (2007: approximately HK$1,231,000 (equivalent to approximately RMB1,150,000)) granted to the Group. Ms. 趙偉 is the younger sister of Mr. Zhao Gang who is the director of Tianjin Jinshun *(note 20(b))*.

(e) As at 31 December 2008, a property of Mr. Zhao Geng has been pledged to a bank for bills payable facilities of approximately HK$1,131,000 (equivalent to approximately RMB1,000,000) (2007: HK$Nil) granted to the Group *(note 20(b))*.

(f) On 29 March 2007, a wholly-owned subsidiary of the Company, has entered into a sale and purchase agreement with a former staff of the Group, Ms. Wong Shiu King, for the disposal of property, plant and equipment with an aggregate carrying amount of HK$95,000 for a consideration of HK$200,000 and the gain on disposal of property, plant and equipment of HK$105,000 was recognised in the income statement in the year ended 31 December 2007.

(g) Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of highest paid employees as disclosed in note 9, is as follows:

The Group

	2008 **HK$'000**	2007 HK$'000
Salaries and other short-term employee benefits	**784**	1,333
Retirement scheme contributions	**45**	53
	829	1,386

Total remuneration is included in "staff costs" *(see note 6(b))*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

27. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(h) The outstanding balances at balance sheet date are as follows:

The Group

	Note	2008 HK$'000	2007 HK$'000
Trade receivables	*(a)*	**457**	336
Amounts due from a minority shareholder of a subsidiary	*(b)*	**1,241**	–
Trade payables	*(c)*	**2,252**	234
Amounts due to directors	*(b)*	**–**	2,921
Amounts due to minority shareholders of a subsidiary	*(b)*	**6,015**	10,298

Note:

(a) The amounts are included in "Trade and other receivables" in the consolidated balance sheet *(note 16)*.

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

(c) The amounts are included in "Trade and other payables" in the consolidated balance sheet. *(note 20)*

28. OPERATING LEASE COMMITMENT

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

The Group

	2008	2007
	HK$'000	HK$'000
Within 1 year	**625**	717
After 1 year but within 5 years	**316**	832
	941	1,549

The Group leases a number of properties under operating leases. The lease typically run for an initial period of three years. None of the leases includes contingent rentals.

29. PLEDGE OF ASSETS

As 31 December 2008, the following assets of the Group and the Company are pledged to the banks and other financial institution for the banking facilities and loans granted to the Group and the Company:

	The Group		**The Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables *(note 16(d))*	**33,071**	6,029	**–**	–
Bank deposits *(note 17)*	**1,181**	681	**50**	50
	34,252	6,710	**50**	50

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

30. RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Tianjin, whereby the Group is required to make contributions to the Schemes at a rate of 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme 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 employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

31. EVENTS AFTER THE BALANCE SHEET DATE

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

32. PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2008, the directors consider the parent and ultimate controlling party of the Group to be Hong Jin, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

33. COMPARATIVE FIGURES

With a review of financial statements presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Going concern and liquidity

The Group has consolidated net liabilities of approximately HK$12,301,000 at 31 December 2008, along with other matters as set forth in note 2(b) to the financial statements, indicating the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are taking measures to improve the liquidity position of the Group and details are set out in note 2(b). The consolidated financial statements have been prepared on a going concern basis. Should the measures fail to improve the liquidity position of the Group and the Group is unable to continue in business as a going concern, adjustments would have to be made to reduce the carrying amounts of the assets of the Group to their recoverable amount and to provide for further liabilities which might arise.

(b) Impairment of property, plant and equipment

The recoverable amount of an asset is the greater of its fair value less cost to sell and its 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 the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

(c) Impairments losses for bad and doubtful accounts

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

(d) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation 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 anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. These could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management reassesses the estimations at each balance sheet date.