中國製藥集團有限公司

China Pharmaceutical Group Limited

Stock Code : 1093

Annual Report 07

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Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman)*
YUE Jin
FENG Zhenying
JI Jianming
CHAK Kin Man
PAN Weidong
LI Zhibiao
ZHANG Zheng

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
HUO Zhenxing
QI Moujia
GUO Shichang
CHAN Siu Keung, Leonard

COMMITTEES

Audit Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

Remuneration Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

LEGAL ADVISERS

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

CHAK Kin Man
LI Zhibiao

REGISTERED OFFICE

Suite 3805
38th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China, Shijiazhuang Branch
Bank of China, Huhhot Branch
China Construction Bank, Shijiazhuang Branch
China Minsheng Banking Corporation Limited, Shijiazhuang Branch
CITIC Ka Wah Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Industrial and Commercial Bank of China, Shijiazhuang Branch

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

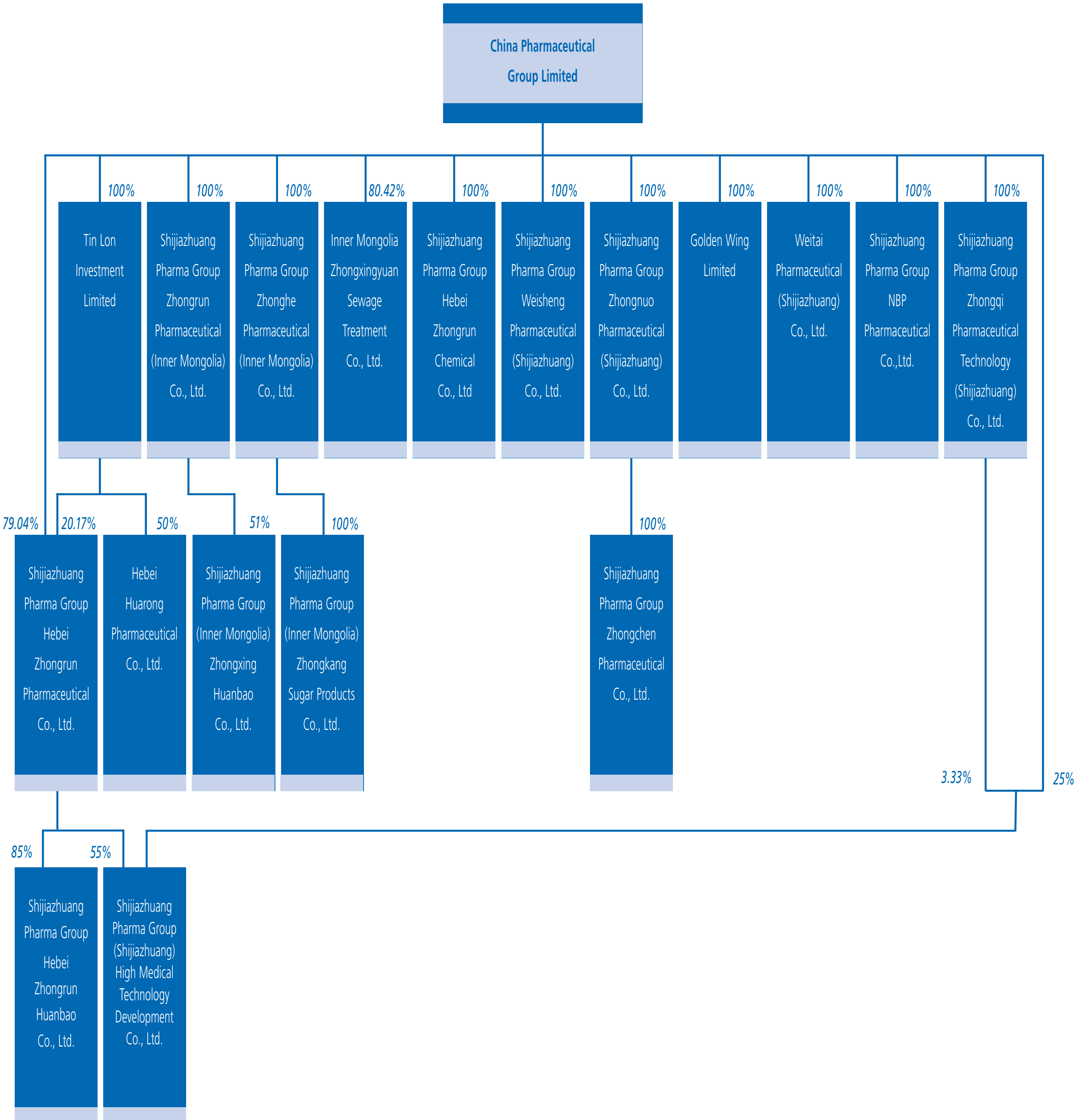
STOCK CODE

1093

WEBSITES

www.irasia.com/listco/hk/cpg/index.htm
www.cpg.hk

CORPORATE STRUCTURE



RESULTS

I am pleased to report that the Group achieved marked improvement in results for the year ended December 31, 2007. For the fiscal year of 2007, the Group's turnover increased by 41% to HK$4,986 million. Profit attributable to equity holders of the Company increased by over 29 times to HK$477 million.

The Board of Directors recommends the payment of a final dividend of HK5 cents per share for the year ended December 31, 2007.

BUSINESS REVIEW AND OUTLOOK

Vitamin C series

Total sales volume of the major products of this series increased by 13% to 28,288 tonnes for the current year. With the market supply and demand moving towards a more balanced state, product prices rebounded significantly during the year. The average price of vitamin C for the year was US$4.60 per kg, an increase of 64.3% over US$2.80 of the previous year. The gross profit margin of the entire series increased from 13.5% in the previous year to 38.0% in the current year.

The current market demand for vitamin C remains strong and product prices continue to stay at a satisfactory level. It is expected that the performance of this business will be able to improve further in 2008.

Penicillin series

Total sales volume of the major products of this series decreased by 5% to 8,102 tonnes for the current year. During the year, market supply has been affected by the more stringent environmental regulations, resulting in a sharp increase of the product prices. The respective average prices of penicillin industrial salt, amoxicillin and 6-APA for the year were US$17.86, US$35.11 and US$38.51 per kg, substantially higher than the respective average prices of US$10.01, US$22.20 and US$20.92 of the previous year. The gross profit margin of the entire series increased from 15.7% in the previous year to 37.5% in the current year.

Market supply has gradually returned to normal with the improvement in the area of environmental protection. Coupled with the addition of new production capacity in the market, product prices began to decline swiftly in the fourth quarter. Currently, the inventory pressure of the manufacturers has been lessened and product prices have begun to recover from the low level at the beginning of the year. However, the performance of this business in 2008 is not expected to be able to achieve the same profitability level of 2007.

Cephalosporin series

Total sales volume of the major products of this series decreased by 4% to 1,061 tonnes for the current year. After the significant drop in previous year, product prices steadily recovered during the year. The average price of 7-ACA for the year was US$91.31 per kg, an increase of 21.3% over US$75.25 of the previous year. Gross profit margin of the entire series increased from 13.5% in the previous year to 16.2% in the current year.

Product prices have declined recently. It is expected that the performance of this business will be relatively stable in 2008.

Finished drugs

Even though market competition was still fierce in the current year, revenue of this business managed to grow by 16.6%. Gross profit margin increased from 22.1% in the previous year to 25.0% in the current year. Sales revenue of the vitamin C supplement products reached HK$64,000,000 for the year, a growth of 74% as compared with the previous year's figure. However, with the substantial increase of selling and distribution expenses, this business only ended up recording an operating profit of HK$6,409,000 for the year, a decline of 79% as compared with the previous year's figure.

Market competition is expected to remain fierce. The Group will try to enhance the performance in 2008 by the introduction of new products and strengthening of sales efforts.

Patent drug

The patent drug, butylphthalide, maintained a steady growth in sales during the year. Apart from strengthening the domestic sales efforts, the Group will continue its efforts to tap into the overseas market.

FINANCIAL REVIEW

Liquidity and financial position

In 2007, the Group's operating activities generated a net cash inflow of HK$899,494,000. Capital expenditure in relation to the additions of fixed assets amounted to HK$491,740,000. As at December 31, 2007, the Group's current ratio was 1.0, same as the level of the previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivables balance to sales, inclusive of value added tax for sales in the PRC) was 62 days in the current year, as compared with 55 days a year earlier. Owing to the slowdown in sales of penicillin products in the second half of the year, inventory turnover period (ratio of inventories balance to cost of goods sold) increased from 85 days in the previous year to 98 days in the current year.

As at December 31, 2007, the Group had total borrowings of HK$1,701,830,000 (comprising bank loans of HK$1,692,426,000 and loans from an intermediate holding company of HK$9,404,000). The maturity profile spreads over a period of four years with HK$985,447,000 repayable within one year and the remaining HK$716,383,000 repayable between two to four years. Net gearing ratio as at December 31, 2007 was 38% (which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK$436,843,000 over shareholders' equity at the balance sheet date), as compared with 46% a year earlier.

38% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 62% in Renminbi. The Group's revenues are denominated mainly either in Renminbi or in US dollars. Foreign exchange forward contracts are employed by the Group to minimise the currency exposure.

Pledge of assets

As at December 31, 2007, bank deposits of HK$751,000 (2006: HK$4,104,000) were pledged to banks to secure banking facilities granted to the Group.

Contingent liabilities

As disclosed in the Company's press announcement dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. Up to the date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisors to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

Further information on the antitrust complaints is set out in note 40 to the consolidated financial statements.

EMPLOYEES

As at December 31, 2007, the Group had about 9,370 employees, the majority of them were employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during this year.

By order of the Board
CAI DONGCHEN
Chairman

Hong Kong, April 17, 2008

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring a high standard of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting the confidence of investors. The Board will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended December 31, 2007 with certain deviation from code provision A.2.1 as set out in this report.

BOARD OF DIRECTORS

The Board currently comprises eight executive directors, one non-executive director and four independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting experience and expertise. The biographies of the directors are set out on pages 13 to 14 of the annual report.

The Board is responsible for establishing strategic direction, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group and approve business plans. Four regular Board meetings were held at approximately quarterly interval in 2007. Individual attendance of each director at the regular Board meetings, Audit Committee meetings and Remuneration Committee meeting during 2007 is set out below:

	Attendance/Number of Meetings		
Director	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors:			
Cai Dongchen *(Chairman)*	4/4		
Yue Jin	4/4		
Feng Zhenying	4/4		
Ji Jianming	4/4		
Chak Kin Man	4/4		
Pan Weidong	3/4		
Li Zhibiao	4/4		
Zhang Zheng	4/4		

Director	Attendance/Number of Meetings Board	Audit Committee	Remuneration Committee
Non-Executive Director:			
Lee Ka Sze, Carmelo	3/4	3/4	1/1
Independent Non-Executive Directors:			
Huo Zhenxing	4/4	4/4	1/1
Qi Moujia	3/4		
Guo Shichang	2/4		
Chan Siu Keung, Leonard	4/4	4/4	1/1

CHAIRMAN AND MANAGING DIRECTOR

Code provision A.2.1 of the Code stipulates that the roles of chairman and managing director should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the managing director of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of two years from January 1, 2007 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies, approving the salary, bonus and other benefits of executive directors and recommending to the Board remuneration of non-executive directors. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

One meeting was held in 2007. Based on its review of the operating results of the Group, individual performance and comparable market statistics, the committee has considered and approved the remuneration of the executive directors of the Company at the meeting.

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board will review the structure, size and composition of the Board from time to time and make recommendation on the appointment of directors.

Mr. Wei Fumin resigned as an executive director of the Company with effect from April 2, 2007. The Board has not appointed any new directors during 2007.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

Four meetings were held in 2007. At the meetings, the committee considered the fees charged by the auditor, reviewed the quarterly, half-yearly and annual financial statements, reviewed the auditor's management letter and management response and reviewed the annual budget of the Group.

Based on the review and discussion at the meetings, the committee recommended to the Board to approve the quarterly, half-yearly and annual results of the Group and to adopt the measures to improve the internal control system as suggested by the auditor in the management letters.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

AUDITOR'S REMUNERATION

During the year, the auditor of the Company charged HK$1,800,000 for audit services and HK$772,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements, review of statement of indebtedness and certain agreed-upon procedures.

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the financial statements of the Company and the Group. The reporting responsibilities of the auditor are set out in the independent auditor's report on page 19 to 20 of the annual report.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedures for voting by poll have been included in the circulars of the Company accompanying notices convening general meetings and have been read out by the chairman at the general meetings held in 2007.

At the 2007 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors. The respective chairman of the Board, Audit Committee and Remuneration Committee attended the 2007 annual general meeting to answer questions raised by shareholders.

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and jointly controlled entity are set out in notes 42 and 21 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total sales and purchases for the year, respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2007 are set out in the consolidated income statement on page 21 of the annual report.

The Board of Directors recommends the payment of a final dividend of HK5 cents per share for the year ended December 31, 2007, representing a distribution of approximately HK$76,906,000. Subject to shareholders' approval of the final dividend at the annual general meeting on May 23, 2008, payment of the final dividend will be made on June 10, 2008 to shareholders whose names appear on the register of members of the Company on May 23, 2008.

The register of members of the Company will be closed from May 19, 2008 to May 23, 2008, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, May 16, 2008.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2007 comprised the retained profits of approximately HK$258,055,000 (2006: HK$139,975,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to upgrade its production facilities for bulk drug products and finished drug products. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and share option scheme of the Company are set out in notes 31 and 32 to the consolidated financial statements, respectively.

DIRECTORS

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

Executive directors:

Cai Dongchen, Chairman
Yue Jin
Feng Zhenying
Ji Jianming
Chak Kin Man
Pan Weidong
Li Zhibiao
Zhang Zheng
Wei Fumin *(resigned on April 2, 2007)*

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing
Qi Moujia
Guo Shichang
Chan Siu Keung, Leonard

In accordance with Article 101 of the Company's Articles of Association, Messrs. Yue Jin, Feng Zhenying, Chak Kin Man, Huo Zhenxing and Guo Shichang retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the non-executive director and independent non-executive directors of the Company has entered into a service contract for a term of two years from January 1, 2007.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 54, Chairman of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai graduated from Hebei Finance College in the People's Republic of China (the "PRC") and has over thirty years of technical and management experience in the pharmaceutical industry.

YUE Jin

Mr. Yue, aged 44, was appointed as an executive director of the Company in 2001. He graduated from Hebei University in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

FENG Zhenying

Mr. Feng, aged 52, was appointed as an executive director of the Company in 2003. He graduated from Hebei Chemical College in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

JI Jianming

Mr. Ji, aged 45, was appointed as an executive director of the Company in 2005. He graduated from Hebei University in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 42, was appointed as an executive director of the Company in 2005. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a Bachelor of Social Sciences degree from the University of Hong Kong and has over eighteen years of experience in auditing and financial management.

PAN Weidong

Mr. Pan, aged 38, was appointed as an executive director of the Company in 2006. He graduated from Shijiazhuang Post College in the PRC and has over sixteen years of experience in financial management and accounting.

LI Zhibiao

Mr. Li, aged 44, was appointed as an executive director of the Company in 2006. He holds a Master of Biology degree from Hebei Normal University in the PRC and has over sixteen years of business development and marketing experience in the pharmaceutical industry.

ZHANG Zheng

Mr. Zhang, aged 27, was appointed as an executive director of the Company in 2006. He holds a Bachelor of Business Studies degree from Charles Sturt University in Australia.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LEE Ka Sze, Carmelo

Mr. Lee, aged 47, was appointed as an independent non-executive director of the Company in 1996 and re-designated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee of the Company. He holds a Bachelor of Laws degree from the University of Hong Kong. He is a solicitor by profession and is a partner of a law firm in Hong Kong.

HUO Zhenxing

Mr. Huo, aged 72, was appointed as an independent non-executive director of the Company in 1994. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 75, was appointed as an independent non-executive director of the Company in 1996. He was the former director of the State Drug Administration of China (the "SDA", now known as the State Food and Drug Administration of China). He was the deputy chairman and chairman of the SDA in 1978 and 1982-1994, respectively.

GUO Shichang

Mr. Guo, aged 66, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government in the PRC from 1993 to 2002.

CHAN Siu Keung, Leonard

Mr. Chan, aged 50, was appointed as an independent non-executive director of the Company in 2004. He is also a member of the Audit Committee and the Remuneration Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a Master of Business Administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no contracts of significance to which the Company, its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2007, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions:

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at December 31, 2007.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 32 to the consolidated financial statements, at no time during the year was the Company, its holding companies, fellow subsidiaries and subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Employees' Shareholding Society of Legend Holdings Limited	Interest of a controlled corporation	783,316,161 *(note i)*	50.93%
Legend Holdings Limited	Interest of a controlled corporation	783,316,161 *(note i)*	50.93%
Shijiazhuang Pharmaceutical Group Company Limited ("SPG")	Interest of a controlled corporation	783,316,161 *(note i)*	50.93%
China Charmaine Pharmaceutical Company Limited	Beneficial owner	783,316,161 *(note ii)*	50.93%

Notes:

(i) Employees' Shareholding Society of Legend Holdings Limited owns 35% interest in Legend Holdings Limited which in turn owns 100% interest in SPG. Therefore, they are deemed to be interested in 783,316,161 shares of the Company in which SPG has an indirect interest.

(ii) China Charmaine Pharmaceutical Company Limited is a wholly-owned subsidiary of SPG.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at December 31, 2007.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 25 to the consolidated financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In respect of the acquisition of Shijiazhuang Pharma Group (Inner Mongolia) Zhongkang Sugar Products Company Limited ("Zhongkang"), details of which are set out in note 36 to the consolidated financial statements and an announcement of the Company dated August 30, 2007, the independent non-executive directors confirmed that the audited profit of Zhongkang for the year ended December 31, 2007 exceeded RMB20,000,000 according to the generally accepted accounting principles and standards in Hong Kong, which fulfilled the profit guarantee requirement as set out in the agreement of the transaction.

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

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

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Pursuant to three bank loan agreements, it will be an event of default under each of the loan agreements if SPG owns less than 40% of the issued share capital of the Company. The outstanding principal of these bank loans at December 31, 2007 amounted to HK$652,000,000 and the last instalment repayment is due in September 2011.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.18 of the Listing Rules.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 32 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended December 31, 2007.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$454,000.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
CAI DONGCHEN
Chairman

April 17, 2008

Deloitte.
德勤

TO THE MEMBERS OF CHINA PHARMACEUTICAL GROUP LIMITED
中國製藥集團有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 78 which comprise the consolidated and Company balance sheets as at December 31, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audit and to report our opinion 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, April 17, 2008

Consolidated Income Statement

For the year ended December 31, 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	7	**4,986,059**	3,538,754
Cost of sales		**(3,449,641)**	(2,925,429)
Gross profit		**1,536,418**	613,325
Other income		**27,278**	34,814
Selling and distribution expenses		**(379,203)**	(232,511)
Administrative expenses		**(471,280)**	(308,094)
Other expenses		**(74,822)**	(6,808)
Operating profit		**638,391**	100,726
Share of loss of a jointly controlled entity		**(2,683)**	(3,350)
Change in fair value of a derivative financial instrument		**(551)**	—
Finance costs	8	**(112,809)**	(95,776)
Profit before tax	9	**522,348**	1,600
Income tax (charge) credit	10	**(45,569)**	13,763
Profit for the year		**476,779**	15,363
Attributable to:			
Equity holders of the Company		**477,388**	15,664
Minority interests		**(609)**	(301)
		476,779	15,363
Proposed dividend	13	**76,906**	—
		HK cents	*HK cents*
Earnings per share — Basic	14	**31.04**	1.02

CONSOLIDATED BALANCE SHEET

At December 31, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**3,648,284**	3,233,026
Prepaid lease payments	16	**174,544**	145,923
Intangible assets	17	**58,876**	48,275
Goodwill	18	**100,718**	55,764
Deposit paid for investment in an associate	20	**21,277**	—
Interest in a jointly controlled entity	21	**20,146**	21,646
Pledged bank deposits	22	**751**	1,312
		4,024,596	3,505,946
Current assets			
Inventories	23	**927,867**	682,935
Trade and other receivables	24	**768,828**	574,488
Bills receivables	24	**281,586**	98,501
Prepaid lease payments	16	**5,384**	4,361
Tax recoverable		**—**	1,165
Trade receivables due from a related company	25	**—**	2,660
Amount due from a jointly controlled entity	25	**14,392**	13,155
Pledged bank deposits	22	**—**	2,792
Bank balances and cash	22	**436,092**	387,405
		2,434,149	1,767,462
Current liabilities			
Trade and other payables	26	**1,127,786**	754,147
Bills payables	26	**169,537**	223,118
Trade payables due to a related company	25	**25,820**	11,360
Amounts due to related companies	25	**14,978**	10,454
Tax liabilities		**47,103**	15,002
Unsecured bank loans	27	**976,043**	752,000
Loans from an intermediate holding company	28	**9,404**	—
Derivative financial instrument	29	**551**	—
		2,371,222	1,766,081
Net current assets		**62,927**	1,381
Total assets less current liabilities		**4,087,523**	3,507,327

Consolidated Balance Sheet

At December 31, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Unsecured bank loans	27	**716,383**	777,000
Loans from ultimate holding company	28	**—**	59,493
Loan from a related company	30	**—**	20,000
		716,383	856,493
Net assets		**3,371,140**	2,650,834
Capital and reserves			
Share capital	31	**153,812**	153,812
Reserves		**3,198,486**	2,487,829
Equity attributable to equity holders of the Company		**3,352,298**	2,641,641
Minority interests		**18,842**	9,193
Total equity		**3,371,140**	2,650,834

The consolidated financial statements from pages 21 to 78 were approved and authorised for issue by the Board of Directors on April 17, 2008 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Balance Sheet

At December 31, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**230**	674
Investments in subsidiaries	33	**1,320,766**	1,202,044
		1,320,996	1,202,718
Current assets			
Other receivables		**6,356**	4,808
Amounts due from subsidiaries	34	**844,107**	866,733
Bank balances and cash	22	**26,172**	3,429
		876,635	874,970
Current liabilities			
Other payables		**16,486**	13,174
Unsecured bank loans	27	**292,000**	242,000
Derivative financial instrument	29	**551**	—
		309,037	255,174
Net current assets		**567,598**	619,796
Total assets less current liabilities		**1,888,594**	1,822,514
Non-current liability			
Unsecured bank loans	27	**360,000**	412,000
Net assets		**1,528,594**	1,410,514
Capital and reserves			
Share capital	31	**153,812**	153,812
Reserves	35	**1,374,782**	1,256,702
Total equity		**1,528,594**	1,410,514

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended December 31, 2007

	Equity attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital contribution HK$'000	Goodwill reserve HK$'000	Translation reserve HK$'000	Non-distributable reserves HK$'000 (note i)	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At January 1, 2006	153,812	1,116,727	1,362	(167,254)	71,120	355,524	953,541	2,484,832	10,696	2,495,528
Exchange differences arising on translation to presentation currency recognised directly in equity	–	–	–	–	140,908	–	–	140,908	393	141,301
Profit for the year	–	–	–	–	–	–	15,664	15,664	(301)	15,363
Total recognised income and expense for the year	–	–	–	–	140,908	–	15,664	156,572	92	156,664
Transfers	–	–	–	–	–	27,242	(27,242)	–	–	–
Capital contribution from ultimate holding company	–	–	237	–	–	–	–	237	–	237
Release upon disposal of a subsidiary *(note ii)*	–	–	–	–	–	–	–	–	(1,595)	(1,595)
At December 31, 2006	**153,812**	**1,116,727**	**1,599**	**(167,254)**	**212,028**	**382,766**	**941,963**	**2,641,641**	**9,193**	**2,650,834**
Exchange differences arising on translation to presentation currency recognised directly in equity	**–**	**–**	**–**	**–**	**233,269**	**–**	**–**	**233,269**	**1,128**	**234,397**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**477,388**	**477,388**	**(609)**	**476,779**
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**233,269**	**–**	**477,388**	**710,657**	**519**	**711,176**
Transfer arising on impairment of goodwill in respect of a jointly controlled entity	**–**	**–**	**–**	**7,124**	**–**	**–**	**(7,124)**	**–**	**–**	**–**
Transfers	**–**	**–**	**–**	**–**	**–**	**170,844**	**(170,844)**	**–**	**–**	**–**
Capital contribution by the minority shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**5,000**
Acquisition of a subsidiary *(note 36)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,556**	**4,556**
Dividend paid to the minority shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(426)**	**(426)**
At December 31, 2007	**153,812**	**1,116,727**	**1,599**	**(160,130)**	**445,297**	**553,610**	**1,241,383**	**3,352,298**	**18,842**	**3,371,140**

Notes:

(i) The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and jointly controlled entity in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(ii) During the year ended December 31, 2006, M2B.com.hk Limited, a non-wholly owned subsidiary of the Company, was disposed of.

Consolidated Cash Flow Statement

For the year ended December 31, 2007

	Note	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**522,348**	1,600
Adjustments for:			
Amortisation of intangible assets		**28,204**	20,902
Amortisation of prepaid lease payments		**5,384**	4,361
Change in fair value of a derivative financial instrument		**551**	—
Depreciation of property, plant and equipment		**392,795**	311,391
Finance costs		**112,809**	95,776
Interest income		**(3,489)**	(4,284)
Loss (gain) on disposal/write-off of property, plant and equipment		**48,549**	(3)
Release of a liability from a minority shareholder		**—**	(1,595)
Share of loss of a jointly controlled entity		**2,683**	3,350
Operating cash flows before movements in working capital		**1,109,834**	431,498
(Increase) decrease in inventories		**(213,678)**	73,118
Increase in trade and other receivables		**(178,497)**	(61,501)
(Increase) decrease in bills receivables		**(183,085)**	19,780
(Increase) decrease in trade receivables due from a related company		**(5,854)**	11,733
(Increase) decrease in amount due from a jointly controlled entity		**(619)**	3,892
Increase (decrease) in trade and other payables		**443,699**	(112,521)
Decrease in bills payables		**(53,581)**	(180,758)
Increase in trade payables due to a related company		**14,460**	11,360
(Decrease) increase in amounts due to related companies		**(16,918)**	6,308
Decrease in trade payables due to a jointly controlled entity		**—**	(3,107)
Cash generated from operations		**915,761**	199,802
PRC Enterprise Income Tax refunds		**15,882**	34,250
PRC Enterprise Income Tax paid		**(32,149)**	(3,234)
NET CASH FROM OPERATING ACTIVITIES		**899,494**	230,818
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(602,328)**	(335,997)
Acquisitions of subsidiaries	36	**(141,954)**	—
Purchase of intangible assets		**(35,413)**	(5,778)
Deposit paid for investment in an associate		**(21,277)**	—
Prepayment of land leases		**(2,979)**	(3,090)
Interest received		**3,489**	4,284
Decrease (increase) in pledged bank deposits		**3,353**	(1,676)
Proceeds on disposal of property, plant and equipment		**3,350**	173
Proceeds on early termination of land leases		**—**	14,740
Repayment of loan receivable		**—**	670
NET CASH USED IN INVESTING ACTIVITIES		**(793,759)**	(326,674)

Consolidated Cash Flow Statement

For the year ended December 31, 2007

	Note	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES			
Repayments of bank loans		**(912,601)**	(726,000)
Repayments of loans from related parties		**(146,000)**	—
Interest paid		**(112,459)**	(95,443)
Repayment of loan from ultimate holding company		**(50,439)**	—
Dividend paid to the minority shareholder of a subsidiary		**(426)**	—
New bank loans raised		**1,009,149**	785,000
Loan raised from a related company		**126,000**	20,000
Capital contribution by the minority shareholder of a subsidiary		**5,000**	—
Loans raised from ultimate holding company		**—**	1,400
NET CASH USED IN FINANCING ACTIVITIES		**(81,776)**	(15,043)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**23,959**	(110,899)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**387,405**	472,706
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**24,728**	25,598
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**436,092**	387,405

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Prior to June 26, 2007, Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), a company established in the People's Republic of China (the "PRC"), was the parent and the ultimate holding company of the Company and owned approximately 50.93% of the issued share capital of the Company. On June 26, 2007, Legend Holdings Limited, an investment holding company established in the PRC, acquired the entire interest of SPG from State-owned Assets Supervision and Administration Committee of Shijiazhuang Municipal People's Government and became the ultimate holding company of the Company with effect on that date. SPG, together with the companies under its control, other than the Company and its subsidiaries (collectively referred to as the "Group"), will hereinafter be referred to as the "SPG Group". As at December 31, 2007, China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG and a limited company incorporated in Hong Kong, is the immediate holding company of the Company.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollar ("HKD") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning January 1, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"
HK(IFRIC) — INT 8	Scope of HKFRS 2
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) — INT 10	Interim Financial Reporting and Impairment

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new, revised and amended standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions[3]
HK(IFRIC) — Int 12	Service Concession Arrangements[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

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

[2] Effective for annual periods beginning on or after July 1, 2009

[3] Effective for annual periods beginning on or after March 1, 2007

[4] Effective for annual periods beginning on or after January 1, 2008

[5] Effective for annual periods beginning on or after July 1, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 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 transactions. The directors of the Company anticipate that the application of the other new, revised and amended standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions prior to January 1, 2005

Goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

Goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity prior to January 1, 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit ("CGU") to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on an acquisition of net assets and operations of another entity after January 1, 2001, the Group has discontinued amortisation from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the CGU to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after January 1, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for the goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments which represent up-front payments to acquire leasehold land interests are stated at cost and amortised over the period of the lease on a straight-line basis.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Research and development expenditure *(continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, trade receivables due from a related company, amount due from a jointly controlled entity, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the general credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, bills payables, trade payables due to a related company, amounts due to related companies, unsecured bank loans, loans from an intermediate/ultimate holding company and loan from a related company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets, other than goodwill (see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of returns, discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when services are rendered.

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Operating lease

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interest in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax credits

Tax credits are recognised as income in the consolidated income statement only when the Group has met the underlying requirements or received the tax refund from the relevant tax authority.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Group (i.e. HKD) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after January 1, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before January 1, 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at the balance sheet date was approximately HK$260,848,000, of which approximately HK$160,130,000 was included in the goodwill reserve. At the balance sheet date, the directors assessed the need to provide impairment loss on the goodwill and the carrying amount of the goodwill was sustained by the result. Details of the impairment test are provided in note 19.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 27 net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	**1,457,154**	1,047,816	**871,057**	870,841
Financial liabilities				
Amortised cost	**2,829,547**	2,504,034	**652,000**	654,000
Derivative financial instrument	**551**	—	**551**	—

6b. Financial risk management objectives and policies

The major financial instruments of the Group and the Company include trade and other receivables, bills receivables, amount due from a jointly controlled entity, amounts due from subsidiaries, bank balances, trade and other payables, bills payables, trade payables due to a related company, amounts due to related companies, loans from an intermediate holding company and unsecured bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (represented by currency risk and interest rate risk), credit risk and liquidity 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.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States dollar ("USD") and the Company has raised bank loans, denominated in HKD, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments when the need arises.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities of the Group and the Company at the reporting date that are considered significant by the management are as follows:

	THE GROUP				THE COMPANY			
	Liabilities		Assets		Liabilities		Assets	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HKD	**652,000**	654,000	**66,618**	15,594	**652,000**	654,000	**24,541**	3,361
USD	**—**	—	**242,464**	128,914	**—**	—	**1,562**	—

Sensitivity analysis

The following table details the sensitivity of the Group and the Company to a 5% increase and decrease in RMB against USD and HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit before tax where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before tax and the balances below would be negative.

	THE GROUP						THE COMPANY					
	HKD Impact			USD Impact			HKD Impact			USD Impact		
	2007	2006		**2007**	2006		**2007**	2006		**2007**	2006	
	HK$'000	*HK$'000*		***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*	
Profit before tax	**27,875**	30,400	*(i)*	**(11,546)**	(6,139)	*(ii)*	**29,879**	30,983	*(i)*	**(74)**	—	*(ii)*

(i) This is mainly attributable to the exposure outstanding on HKD bank balances and bank loans at year end.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances and receivables at year end.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate bank loans (see note 27 for details of these loans), which are raised from the banks in the PRC by the subsidiaries in the PRC. In relation to these fixed-rate loans, the Group aims to keep loans at rates that are comparable to those in the market. In order to achieve this result, the Group negotiated with the banks and entered into various revolving loans such that the interest rate associated with the loans is more or less variable. In this regard, the directors of the Company consider that the Group's fair value interest rate risk is minimised.

The Group and the Company are also exposed to cash flow interest rate risk primarily in relation to the floating-rate bank loans (see note 27 for details of these loans). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group and the Company is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's HKD loans raised by the Company.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank loans. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's and the Company's profit before tax for the year ended December 31, 2007 would both decrease/increase by HK$3,260,000 (2006: decrease/increase by HK$3,270,000).

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Credit risk

As at December 31, 2007, the maximum exposure to credit risk by the Group and the Company which will cause a financial loss due to failure to discharge an obligation by the counterparties and financial guarantees provided is arising from:

- the carrying amounts of the recognised financial assets as stated in the balance sheets; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 40.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debt on a collective basis at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk on trade receivables, bills receivables, amount due from a jointly controlled entity and bank balances by geographical locations is mainly in the PRC. The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties.

The credit risk on liquid funds of the Group and the Company is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenant.

The Group relies on bank borrowings as a significant source of liquidity. As at December 31, 2007, the Group has available unutilised bank loan facilities of approximately HK$304,681,000. Details of which are set out in note 27.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principle cash flows.

2007

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 12.31.2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables		488,901	403,865	11,194	13,422	917,382	917,382
Bills payables		169,537	—	—	—	169,537	169,537
Trade payables due to a related company		25,820	—	—	—	25,820	25,820
Amounts due to related companies		14,978	—	—	—	14,978	14,978
Unsecured bank loans							
— fixed-rate	6.70	56,727	—	672,426	400,930	1,130,083	1,040,426
— floating-rate	4.41	—	—	305,040	375,727	680,767	652,000
Loans from an intermediate holding company	3.78	—	—	9,574	—	9,574	9,404
		755,963	403,865	998,234	790,079	2,948,141	2,829,547

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

2006

	Weighted average effective interest rate %	Less than 1 month *HK$'000*	1-3 months *HK$'000*	3 months to 1 year *HK$'000*	Over 1 year *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 12.31.2006 *HK$'000*
Non-derivative financial liabilities							
Trade and other payables		347,048	284,752	9,917	8,892	650,609	650,609
Bills payables		223,118	—	—	—	223,118	223,118
Trade payables due to a related company		11,360	—	—	—	11,360	11,360
Amounts due to related companies		10,454	—	—	—	10,454	10,454
Unsecured bank loans							
— fixed-rate	5.89	52,511	42,268	444,759	386,987	926,525	875,000
— floating-rate	4.82	—	—	253,654	431,870	685,524	654,000
Loans from ultimate holding company	3.78	—	—	—	61,890	61,890	59,493
Loan from a related company	6.00	—	—	—	20,503	20,503	20,000
		644,491	327,020	708,330	910,142	2,589,983	2,504,034

At both balance sheet dates, the Company's non-derivative financial liabilities represented the unsecured floating-rate bank loans of the Group, of which the remaining contractual maturity has been disclosed above. Therefore, no further analysis is presented.

6c. Fair value

The fair value of derivative financial instrument is determined with reference to the valuation provided by the relevant financial institution.

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

	2007 HK$'000	2006 HK$'000
Sale of goods	4,985,795	3,536,575
Service income	264	2,179
	4,986,059	3,538,754

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

Business segments

The Group reports its primary segment information by products, namely bulk drugs (including penicillin series, cephalosporin series and vitamin C series), finished drugs and others. Segment information about these products is presented below:

For the year ended December 31, 2007

	Bulk Drugs						
	Penicillin series HK$'000	Cephalosporin series HK$'000	Vitamin C series HK$'000	Finished Drugs HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE							
External sales	1,617,030	767,708	1,102,142	1,464,008	35,171	—	4,986,059
Inter-segment sales	410,999	43,695	803	—	19,069	(474,566)	—
TOTAL REVENUE	2,028,029	811,403	1,102,945	1,464,008	54,240	(474,566)	4,986,059
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	396,726	38,261	252,727	6,409	(31,687)		662,436
Unallocated income							3,489
Unallocated expenses							(27,534)
Operating profit							638,391
Share of loss of a jointly controlled entity					(2,683)		(2,683)
Change in fair value of a derivative financial instrument							(551)
Finance costs							(112,809)
Profit before tax							522,348
Income tax charge							(45,569)
Profit for the year							476,779

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended December 31, 2007 *(continued)*

Other Information

	Bulk Drugs						
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Unallocated corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	518,157	70,770	58,834	24,272	14,758	1	686,792
Depreciation and amortisation	149,588	112,391	120,740	27,800	15,419	445	426,383
Goodwill	44,954	—	—	—	—	—	44,954

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2007

	Bulk Drugs					
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	2,439,503	1,107,254	1,379,975	832,471	236,718	5,995,921
Interest in a jointly controlled entity					20,146	20,146
Unallocated corporate assets						442,678
Consolidated total assets						6,458,745
LIABILITIES						
Segment liabilities	487,910	172,580	170,620	432,814	57,711	1,321,635
Unallocated corporate liabilities						1,765,970
Consolidated total liabilities						3,087,605

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended December 31, 2006

	Bulk Drugs						
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE							
External sales	1,016,186	671,996	575,303	1,255,518	19,751	—	3,538,754
Inter-segment sales	202,634	78,740	606	—	—	(281,980)	—
TOTAL REVENUE	1,218,820	750,736	575,909	1,255,518	19,751	(281,980)	3,538,754
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	82,727	29,958	(11,274)	30,556	(18,779)		113,188
Unallocated income							4,284
Unallocated expenses							(16,746)
Operating profit							100,726
Share of loss of a jointly controlled entity					(3,350)		(3,350)
Finance costs							(95,776)
Profit before tax							1,600
Income tax credit							13,763
Profit for the year							15,363

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended December 31, 2006 *(continued)*

Other Information

	Bulk Drugs						
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Unallocated corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	120,378	51,520	54,409	5,271	5,337	4	236,919
Depreciation and amortisation	119,209	98,509	81,185	23,994	13,312	445	336,654

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2006

	Bulk Drugs					
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,452,932	1,169,218	1,268,440	747,078	229,764	4,867,432
Interest in a jointly controlled entity					21,646	21,646
Unallocated corporate assets						384,330
Consolidated total assets						5,273,408
LIABILITIES						
Segment liabilities	190,473	245,946	193,655	294,999	38,686	963,759
Unallocated corporate liabilities						1,658,815
Consolidated total liabilities						2,622,574

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical segments

The following is an analysis of the Group's revenue by geographical market based on the geographical location of customers for the year:

	2007	2006
	HK$'000	*HK$'000*
The PRC	**3,437,359**	2,486,009
Asia other than the PRC	**848,862**	614,837
Europe	**302,227**	216,860
America	**344,553**	191,301
Others	**53,058**	29,747
	4,986,059	3,538,754

Analysis of carrying amounts of segment assets and capital additions are not presented as over 90% of the amounts involved are located in the PRC.

8. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
— bank loans wholly repayable within five years	**92,141**	82,670
— loan from an intermediate/ultimate holding company wholly repayable within five years *(note 28)*	**861**	1,819
— loans from related companies wholly repayable within five years *(note 30)*	**3,286**	481
Bank loan arrangement fees	**2,286**	1,897
Discount on bills receivables discounted without recourse	**13,885**	8,576
Imputed interest expenses on interest-free loans from an intermediate/ ultimate holding company *(note 28)*	**350**	333
	112,809	95,776

9. PROFIT BEFORE TAX

	2007	2006
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including those of directors	**371,906**	252,032
Contribution to retirement benefit schemes, including those of directors	**53,570**	43,104
Total staff costs	**425,476**	295,136
Amortisation of intangible assets (included in cost of sales)	**28,204**	20,902
Amortisation of prepaid lease payments	**5,384**	4,361
Depreciation of property, plant and equipment	**392,795**	311,391
Total depreciation and amortisation	**426,383**	336,654
Auditor's remuneration	**1,800**	1,600
Interest income	**(3,489)**	(4,284)
Loss (gain) on disposal/write-off of property, plant and equipment	**48,549**	(3)
Net foreign exchange losses	**10,574**	2,726
Research and development expenses	**17,275**	8,148
Release of liability from a minority shareholder	**—**	(1,595)

Note: For the years ended December 31, 2006 and 2007, cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated income statement.

10. INCOME TAX CHARGE (CREDIT)

	2007	2006
	HK$'000	*HK$'000*
The tax charge (credit) comprises:		
PRC Enterprise Income Tax		
— Current year	**60,169**	4,285
— Under(over)provision in prior years	**148**	(1,337)
— Tax credits/refunds	**(14,748)**	(16,711)
	45,569	(13,763)

No Hong Kong Profits Tax is payable by the Company nor its subsidiaries incorporated in Hong Kong since they either had no assessable profits or incurred tax losses for both years. Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdiction.

10. INCOME TAX CHARGE (CREDIT) *(continued)*

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption and relief from PRC Enterprise Income Tax starting from their first profit-making years. In addition, pursuant to approvals granted by the relevant tax authority, certain subsidiaries of the Company were granted tax credits/refunds, which were mainly derived from the following activities:

(a) A subsidiary of the Company was entitled to tax refunds on the basis that the subsidiary has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to two PRC subsidiaries set up in previous years.

(b) Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current and future tax charges of the subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authority.

The income tax for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

The income tax charge (credit) for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before tax	**522,348**	1,600
Tax at the domestic income tax rate of 27% (2006: 27%)	**141,034**	432
Tax effect of income not taxable for tax purpose	**(1,369)**	(878)
Tax effect of expenses not deductible for tax purpose	**30,037**	10,320
Tax effect of share of loss of a jointly controlled entity	**724**	904
Tax effect of tax losses not recognised	**23,308**	29,182
Utilisation of tax losses previously not recognised	**(23,260)**	(4,912)
Effect of tax exemption and relief granted to PRC subsidiaries	**(110,305)**	(30,763)
Tax credits/refunds granted to PRC subsidiaries	**(14,748)**	(16,711)
Under(over)provision in prior years	**148**	(1,337)
Income tax charge (credit) for the year	**45,569**	(13,763)

10. INCOME TAX CHARGE (CREDIT) *(continued)*

On March 16, 2007, the PRC promulgated the Law of the PRC (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from January 1, 2008. Those subsidiaries which are under the tax exemption and relief as mentioned above will continue to be entitled to the exemption and relief from PRC Enterprise Income Tax based on the new tax rate of 25% or the concessionary tax rate in the relevant special zone in the PRC during the concessionary period.

At the balance sheet date, the Group had unused tax losses of HK$141,440,000 (2006: HK$141,262,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2012.

There was no other significant unprovided deferred tax for the year or at the balance sheet date.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 14 (2006: 15) directors were as follows:

2007

	Cai Dongchen	Yue Jin	Feng Zhenying	Ji Jianming	Chak Kin Man	Pan Weidong	Li Zhibiao	Zhang Zheng	Wei Fumin	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	60	60	60	60	–	264	66	66	66	132	1,074
Other emoluments:															
Salaries and other benefits	2,768	209	201	453	1,205	204	488	365	–	–	–	–	–	–	5,893
Contribution to retirement benefits schemes	255	10	10	10	111	10	37	25	–	–	–	–	–	–	468
Performance related incentive payment *(note)*	4,800	796	737	822	2,400	1,008	500	500	–	–	–	–	–	–	11,563
Total emoluments	7,883	1,075	1,008	1,345	3,776	1,282	1,085	950	–	264	66	66	66	132	18,998

11. DIRECTORS' EMOLUMENTS *(continued)*

2006

	Cai Dongchen	Yue Jin	Feng Zhenying	Ji Jianming	Yao Shian	Chak Kin Man	Pan Weidong	Li Zhibiao	Zhang Zheng	Wei Fumin	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	–	60	30	30	30	60	240	60	60	60	120	990
Other emoluments:																
Salaries and other benefits	3,041	207	213	209	93	1,170	54	135	101	2,127	–	–	–	–	–	7,350
Contribution to retirement benefits schemes	246	8	8	8	4	108	2	11	8	166	–	–	–	–	–	569
Performance related incentive payment *(note)*	300	127	245	114	68	150	25	11	8	243	–	–	–	–	–	1,291
Total emoluments	3,647	402	526	391	165	1,488	111	187	147	2,596	240	60	60	60	120	10,200

Note: The performance related incentive payment is determined by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

No directors waived any emoluments in the years ended December 31, 2006 and 2007.

12. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group in 2006 and 2007 were all directors of the Company and details of their emoluments are included in note 11 above.

13. PROPOSED DIVIDEND

The final dividend of HK5 cents per share for the year ended December 31, 2007 has been proposed by the directors and is subject to shareholders' approval at the forthcoming annual general meeting.

No dividend was proposed by the directors for the year ended December 31, 2006.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended December 31, 2007 is based on the profit for the year of HK$477,388,000 (2006: HK$15,664,000) and the 1,538,124,661 shares (2006: 1,538,124,661) in issue during the year.

No diluted earnings per share is presented for the years ended December 31, 2006 and 2007 as there were no potential ordinary shares in issue during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
COST						
At January 1, 2006	840,467	3,108,648	11,665	15,810	101,592	4,078,182
Exchange adjustments	41,711	145,234	524	783	4,064	192,316
Additions	28,647	61,300	2,546	2,984	135,664	231,141
Transfers	71,068	75,754	—	—	(146,822)	—
Disposals	—	(2,532)	—	(2,381)	—	(4,913)
At December 31, 2006	**981,893**	**3,388,404**	**14,735**	**17,196**	**94,498**	**4,496,726**
Exchange adjustments	**70,676**	**224,101**	**1,051**	**1,451**	**6,131**	**303,410**
Additions	**791**	**103,512**	**4,234**	**10,041**	**373,162**	**491,740**
Transfers	**145,074**	**236,720**	**560**	**—**	**(382,354)**	**—**
Acquisitions of subsidiaries *(note 36)*	**63,892**	**99,610**	**693**	**823**	**11,185**	**176,203**
Disposals/write-off	**(5,386)**	**(194,949)**	**—**	**(2,078)**	**—**	**(202,413)**
At December 31, 2007	**1,256,940**	**3,857,398**	**21,273**	**27,433**	**102,622**	**5,265,666**
DEPRECIATION						
At January 1, 2006	102,399	785,453	4,326	9,055	—	901,233
Exchange adjustments	6,388	45,511	224	464	—	52,587
Provided for the year	45,616	260,649	2,487	2,639	—	311,391
Eliminated on disposals	—	(1,368)	—	(143)	—	(1,511)
At December 31, 2006	**154,403**	**1,090,245**	**7,037**	**12,015**	**—**	**1,263,700**
Exchange adjustments	**12,693**	**78,992**	**493**	**841**	**—**	**93,019**
Provided for the year	**55,755**	**330,131**	**3,212**	**3,697**	**—**	**392,795**
Acquisitions of subsidiaries *(note 36)*	**3,064**	**13,123**	**233**	**144**	**—**	**16,564**
Eliminated on disposals/write-off	**(192)**	**(147,469)**	**—**	**(1,035)**	**—**	**(148,696)**
At December 31, 2007	**225,723**	**1,365,022**	**10,975**	**15,662**	**—**	**1,617,382**
CARRYING VALUES						
At December 31, 2007	**1,031,217**	**2,492,376**	**10,298**	**11,771**	**102,622**	**3,648,284**
At December 31, 2006	827,490	2,298,159	7,698	5,181	94,498	3,233,026

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

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At December 31, 2007, the carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to approximately HK$702,107,000 (2006: HK$594,995,000). In the opinion of the directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE COMPANY			
COST			
At January 1, 2006	2,225	1,005	3,230
Additions	4	—	4
At December 31, 2006	**2,229**	**1,005**	**3,234**
Additions	**1**	**—**	**1**
At December 31, 2007	**2,230**	**1,005**	**3,235**
DEPRECIATION			
At January 1, 2006	1,110	1,005	2,115
Provided for the year	445	—	445
At December 31, 2006	**1,555**	**1,005**	**2,560**
Provided for the year	**445**	**—**	**445**
At December 31, 2007	**2,000**	**1,005**	**3,005**
CARRYING VALUES			
At December 31, 2007	**230**	**—**	**230**
At December 31, 2006	674	—	674

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

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	Over the shorter of the relevant lease, or 3.3% — 5%
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments with a carrying value of approximately HK$179,928,000 (2006: HK$150,284,000) represent leasehold lands in the PRC held under medium-term land use rights. An amount of approximately HK$5,384,000 (2006: HK$4,361,000) is classified under current assets for reporting purpose.

17. INTANGIBLE ASSETS

	Technical know-how	Development costs	Utility rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At January 1, 2006	73,074	21,386	70,404	164,864
Exchange adjustments	3,514	962	3,168	7,644
Additions	5,778	—	—	5,778
At December 31, 2006	**82,366**	**22,348**	**73,572**	**178,286**
Exchange adjustments	**5,453**	**2,902**	**4,775**	**13,130**
Additions	**6,530**	**28,883**	**—**	**35,413**
At December 31, 2007	**94,349**	**54,133**	**78,347**	**226,829**
AMORTISATION				
At January 1, 2006	54,298	11,938	37,395	103,631
Exchange adjustments	2,814	705	1,959	5,478
Provided for the year	9,519	4,302	7,081	20,902
At December 31, 2006	**66,631**	**16,945**	**46,435**	**130,011**
Exchange adjustments	**4,810**	**1,576**	**3,352**	**9,738**
Provided for the year	**10,916**	**9,692**	**7,596**	**28,204**
At December 31, 2007	**82,357**	**28,213**	**57,383**	**167,953**
CARRYING VALUES				
At December 31, 2007	**11,992**	**25,920**	**20,964**	**58,876**
At December 31, 2006	15,735	5,403	27,137	48,275

At December 31, 2007, included in development costs is an amount of approximately HK$3,682,000 (2006: HK$3,848,000) which was internally generated while all other intangible assets of the Group were acquired from independent third parties. Development costs mainly represent costs incurred for the development of the Group's new products, including clinical experiments and tests conducted by hospital.

Technical know-how mainly represents special techniques and secret formulae for the Group's products development and production.

17. INTANGIBLE ASSETS *(continued)*

Utility rights represent up-front non-refundable payments to secure the rights to use electricity in the PRC over 10 years.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Technical know-how	5 to 10 years
Development costs	3 to 5 years from date of commencement of commercial operation
Utility rights	10 years

18. GOODWILL

	HK$'000
COST	
At January 1, 2006 and December 31, 2006	**55,764**
Arising on acquisition of a subsidiary *(note 36)*	**44,954**
At December 31, 2007	**100,718**

Particulars regarding impairment testing on goodwill are disclosed in note 19.

19. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill with indefinite useful lives as set out in note 18 and goodwill reserve has been allocated to two individual CGUs as follows:

	HK$'000
Business segment of finished drugs ("Unit A")	**55,764**
Manufacture and sale of penicillin ("Unit B")	**205,084**
	260,848

19. IMPAIRMENT TESTING ON GOODWILL *(continued)*

During the year ended December 31, 2007, management of the Group determines that there is no impairment of the above-mentioned CGUs containing the goodwill. The basis of the recoverable amounts of the CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 5.6% per annum, for both Unit A and Unit B, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development.

20. DEPOSIT PAID FOR INVESTMENT IN AN ASSOCIATE

The amount represents the deposit paid for the investment in 20% equity interest in Siping City Fine Chemicals Products Company Limited 四平市精細化學品有限公司 ("Siping"). The total consideration for the transaction amounting to approximately HK$21,277,000 and the acquisition was completed in February 2008. Siping is a sino-foreign equity joint venture company established in the PRC and is engaged in the manufacture and sale of pharmaceutical products in Siping City, Jilin Province.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2007	2006
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**19,985**	19,985
Share of post-acquisition profits, net of dividends received or receivable	**161**	1,661
	20,146	21,646

At December 31, 2007, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

At January 1, 2006 and December 31, 2006, included in the goodwill reserve was goodwill of approximately HK$7,124,000 arising on acquisition of the jointly controlled entity in prior years. An impairment loss on the entire amount has been recognised by the Group during the year ended December 31, 2007 after the re-assessment on the current business performance and future plans of the jointly controlled entity by the management.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

The summarised financial information in respect of the Group's interest in a jointly controlled entity which is accounted for using the equity method is set out below:

	2007	2006
	HK$'000	*HK$'000*
Current assets	**34,432**	31,496
Non-current assets	**58,716**	59,906
Current liabilities	**(62,762)**	(59,990)
Non-current liabilities	**(11,204)**	(10,730)
Income	**107,007**	87,491
Expenses	**(109,690)**	(90,841)

22. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances and pledged bank deposits carry interest at market interest rates, ranging from 0.72% to 2.85% (2006: 0.72% to 3.75%) per annum.

As at December 31, 2007, the Group has pledged bank deposits to banks for the acquisition of property, plant and equipment of approximately HK$751,000 (2006: HK$1,312,000) and the deposits are classified as non-current assets.

As at December 31, 2006, the Group had also pledged approximately HK$2,792,000 deposits to banks to secure short-term banking facilities granted to the Group and the deposits were classified as current assets. The pledges have been released upon the settlement of the relevant bank loan during the current year.

22. BANK BALANCES/PLEDGED BANK DEPOSITS *(continued)*

The bank balances and pledged bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	THE GROUP		THE COMPANY	
	HKD	USD	HKD	USD
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at December 31, 2007	**66,618**	**5,974**	**24,541**	**1,562**
As at December 31, 2006	15,594	3,465	3,361	—

23. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	**84,094**	82,193
Work in progress	**211,908**	174,151
Finished goods	**631,865**	426,591
	927,867	682,935

24. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**674,922**	504,297
Less: allowance for doubtful debts	**(7,009)**	(7,009)
	667,913	497,288
Bills receivables	**281,586**	98,501
	949,499	595,789
Other receivables	**100,915**	77,200
	1,050,414	672,989

24. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(continued)*

The Group allows a general credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) and bills receivables at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**917,351**	559,880
91 to 180 days	**30,534**	35,731
181 to 365 days	**1,614**	178
	949,499	595,789

The Group's trade receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD
	HK$'000
As at December 31, 2007	**236,490**
As at December 31, 2006	125,449

No impairment loss is provided for the trade receivables that are neither past due nor impaired (i.e. aged within 90 days) because these receivables are within the credit period granted to the respective customer and the management considers the default rate is low for such receivables based on historical information and experience.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of approximately HK$32,148,000 (2006: HK$35,909,000) which are past due (i.e. aged over 90 days) at the reporting date for which the Group has not provided for impairment loss after making reference to their subsequent settlement pattern. The Group does not hold any collateral over these balances.

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

24. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(continued)*

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	**7,009**	19,394
Amounts written off as uncollectible	**—**	(12,385)
Balance at end of the year	**7,009**	7,009

25. RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(I) Connected parties

Name of company	**Nature of transactions/balances**	**2007** ***HK$'000***	2006 *HK$'000*
The SPG Group	Sale of steam *(note a)*	**6,084**	2,672
	Purchase of raw materials *(note a)*	**285,025**	266,499
	Rental expenses *(note b)*	**6,086**	5,787
	Interest expenses on loans from an intermediate/ultimate holding company *(note c)*	**1,211**	2,152
	Interest expenses on loans from related companies *(note c)*	**3,286**	481
	Balance due from (to) the SPG Group:		
	— trade receivables *(note d)*	**—**	2,660
	— trade payables *(note d)*	**(25,820)**	(11,360)
	— other payables *(note d)*	**(14,978)**	(10,454)
	— short-term loans *(note c)*	**(9,404)**	—
	— long-term loans *(note c)*	**—**	(79,493)

25. RELATED PARTY DISCLOSURES *(continued)*

(I) Connected parties *(continued)*

With reference to the announcement of the Company dated December 21, 2007, a facility in the aggregate amount of RMB510,000,000 is made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB150,000,000 and RMB360,000,000, respectively. The facility is a general working capital facility for one year from April 25, 2007. As a condition under the facility, SPG has pledged 600,000,000 ordinary shares of the Company (representing approximately 39.01% of the issued share capital of the Company) held by its wholly-owned subsidiary, China Charmaine Pharmaceutical Company Limited, in favour of the bank as security. At December 31, 2007, the extent of such facility utilised by the Group amounted to RMB130,000,000.

As at December 31, 2007, SPG had also given corporate guarantees to banks in the PRC to secure the loan facilities to the extent of approximately HK$404,255,000 (2006: HK$57,416,000) granted to the Group.

In addition, the Group has acquired two subsidiaries from the SPG Group, details of which are set out in note 36 to the consolidated financial statements and an announcement of the Company dated August 30, 2007.

(II) Related parties, other than connected parties

Name of company	Nature of transactions/balances	2007 HK$'000	2006 HK$'000
Huarong, a jointly controlled entity of the Group	Sale of raw materials *(note a)*	**5,555**	4,695
	Purchase of raw materials *(note a)*	**56,782**	36,062
	Provision of utility services by the Group *(note e)*	**8,415**	10,416
	Balance due from Huarong:		
	— dividend receivables	**6,122**	6,122
	— other receivables *(note d)*	**7,758**	7,033
	— trade receivables *(note d)*	**512**	—

At December 31, 2007, a corporate guarantee of approximately HK$638,298,000 (2006: HK$600,000,000) was given by the Company to a bank in the PRC in respect of banking facilities granted to certain subsidiaries of the Company and Huarong. An amount of approximately HK$22,340,000 (2006: Nil) has been utilised by Huarong at the balance sheet date.

25. RELATED PARTY DISCLOSURES *(continued)*

(III) Other state-owned entities in the PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to the followings:

- lending and deposit taking;
- taking and placing of inter-bank balances;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationship, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(IV) Remuneration of key management personnel

The remuneration of key management personnel of the Group during the year is as follows:

	2007	2006
	HK$'000	*HK$'000*
Short-term benefits	**17,936**	9,091
Post-employment benefits	**468**	569
	18,404	9,660

Notes:

(a) The transactions were carried out with reference to the market prices.

(b) Rental expenses were paid in accordance with the tenancy agreements.

(c) Details of the loans are set out in notes 28 and 30.

(d) At the balance sheet date, these amounts were aged within one year.

(e) The transactions were carried out based on the actual costs of utilities incurred by the Group.

26. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**479,686**	406,100
Bills payables	**169,537**	223,118
	649,223	629,218
Other payables	**648,100**	348,047
	1,297,323	977,265

The following is an aged analysis of trade and bills payables at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**595,033**	555,975
91 to 180 days	**29,572**	54,433
181 to 365 days	**11,194**	9,917
More than 365 days	**13,424**	8,893
	649,223	629,218

27. UNSECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The unsecured bank loans are repayable as follows:				
On demand or within one year	**976,043**	752,000	**292,000**	242,000
More than one year, but not more than two years	**544,468**	562,000	**220,000**	292,000
More than two years, but not more than five years	**171,915**	215,000	**140,000**	120,000
	1,692,426	1,529,000	**652,000**	654,000
Less: Amounts due within one year shown under current liabilities	**(976,043)**	(752,000)	**(292,000)**	(242,000)
Amounts due after one year	**716,383**	777,000	**360,000**	412,000

The above bank loans at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Fixed-rate RMB bank loans	**1,040,426**	875,000	**—**	—
Floating-rate HKD bank loans	**652,000**	654,000	**652,000**	654,000
	1,692,426	1,529,000	**652,000**	654,000

The ranges of effective interest rates of the Group's fixed-rate RMB bank loans and floating-rate HKD bank loans are 5.02% to 7.47% (2006: 5.02% to 6.76%) per annum and 4.08% to 6.05% (2006: 4.47% to 5.46%) per annum, respectively. The floating-rate HKD bank loans are subject to interest at HIBOR plus a spread.

27. UNSECURED BANK LOANS *(continued)*

The borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	THE GROUP AND THE COMPANY HKD *HK$'000*
As at December 31, 2007	**652,000**
As at December 31, 2006	654,000

At the balance sheet date, the Group had undrawn loan facilities to the extent of approximately HK$60,000,000 (2006: Nil) and HK$244,681,000 (2006: Nil) in respect of floating-rate HKD bank loans and fixed-rate RMB bank loans, respectively.

28. LOANS FROM AN INTERMEDIATE/ULTIMATE HOLDING COMPANY

The loans due to SPG are unsecured and are analysed as follows:

	2007 ***HK$'000***	2006 *HK$'000*
Current liability:		
— interest-free	**9,404**	—
Non-current liabilities:		
— interest bearing at the rate of 3.78% per annum	**—**	50,000
— interest-free	**—**	9,493
	—	59,493

At December 31, 2007, the fair value of the interest-free loans of approximately HK$9,404,000 (2006: HK$9,493,000) was determined based on the present value of the estimated future cash outflows discounted using the effective interest rate of 3.78% per annum. The loans are repayable within twelve months from the balance sheet date, and are therefore classified as current liabilities.

29. DERIVATIVE FINANCIAL INSTRUMENT

During the year, the Company entered into an arrangement of a financial instrument with a financial institution with a view to reducing the finance costs of the Group. The financial instrument is a structured interest rate swap with an embedded USD Forward Rate Bias linked structure (the "Structured Swap"). The Structured Swap has a notional amount of HK$100,000,000 and a tenure of 4 years (i.e. mature on October 22, 2011). The Structured Swap is measured at fair value at each balance sheet date based on the valuation provided by the counterparty bank. Subsequent to the balance sheet date, the Company has early unwound the Structured Swap.

30. LOAN FROM A RELATED COMPANY

As at December 31, 2006, the loan of HK$20,000,000 was unsecured and carried interest at the rate of 6% per annum. The amount has been fully repaid during the year ended December 31, 2007.

In addition, a loan of HK$126,000,000 was raised from another related party and fully repaid during the year. The loan was also unsecured and carried interest at the rate of 5% per annum.

31. SHARE CAPITAL

	Number of shares	**Share capital** *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At December 31, 2006 and 2007	3,000,000,000	300,000
Issued and fully paid:		
At December 31, 2006 and 2007	1,538,124,661	153,812

32. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on July 6, 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors.

32. SHARE OPTION SCHEME *(continued)*

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceed 0.1% of the total number of shares in issue and have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

33. INVESTMENTS IN SUBSIDIARIES

	2007	2006
	HK$'000	*HK$'000*
Unlisted investments, at cost	**1,320,766**	1,202,044

Particulars of the Company's subsidiaries as at December 31, 2006 and 2007 are set out in note 42.

34. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and recoverable within twelve months from the balance sheet date.

35. RESERVES

	Share premium	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
At January 1, 2006	1,116,727	187,898	1,304,625
Loss for the year	—	(47,923)	(47,923)
At December 31, 2006	**1,116,727**	**139,975**	**1,256,702**
Profit for the year	**—**	**118,080**	**118,080**
At December 31, 2007	**1,116,727**	**258,055**	**1,374,782**

36. ACQUISITIONS OF SUBSIDIARIES

During the year ended December 31, 2007, the following acquisitions took place:

(i) On August 30, 2007, the Group entered into an agreement to acquire 100% of the equity interest in Shijiazhuang Pharma Group (Inner Mongolia) Zhongkang Sugar Products Company Limited ("Zhongkang") from the SPG Group for a consideration of RMB130,000,000 (equivalent to approximately HK$138,808,000);

(ii) On July 6, 2007, the Group entered into an agreement to acquire 51% of the equity interest in Shijiazhuang Pharma Group (Inner Mongolia) Zhongxing Huanbao Company Limited ("Zhongxing Huanbao") from an independent third party for a consideration of RMB4,999,000 (equivalent to approximately HK$4,999,000); and

(iii) On November 10, 2007, the Group entered into an agreement to acquire 100% of the equity interest in Shijiazhuang Pharma Group Zhongchen Pharmaceutical Company Limited ("Zhongchen") from SPG for a consideration of RMB1,800,000 (equivalent to approximately HK$1,915,000).

The above acquisitions have been accounted for using the purchase method of accounting. The amount of goodwill arising is set out below.

Details of these acquired subsidiaries are set out in note 42 to the consolidated financial statements.

36. ACQUISITIONS OF SUBSIDIARIES *(continued)*

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Zhongkang			Zhongxing Huanbao			Zhongchen	
	Acquiree's carrying amount before combination	Fair value adjustments	Fair value	Acquiree's carrying amount before combination	Fair value adjustments	Fair value	Acquiree's carrying amount and fair value	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	119,710	11,071	130,781	34,757	(5,899)	28,858	—	159,639
Prepaid lease payments	21,926	—	21,926	—	—	—	—	21,926
Inventories	26,629	493	27,122	1,942	2,169	4,111	21	31,254
Trade and other receivables	5,366	—	5,366	3,030	—	3,030	7,447	15,843
Amount due from a jointly controlled entity	618	—	618	—	—	—	—	618
Bank balances and cash	1,442	—	1,442	222	—	222	2,104	3,768
Trade and other payables	(15,470)	—	(15,470)	(26,666)	—	(26,666)	(210)	(42,346)
Amount due to a related company	(13,995)	—	(13,995)	—	—	—	(7,447)	(21,442)
Trade payables due to fellow subsidiaries	(8,514)	—	(8,514)	—	—	—	—	(8,514)
Tax liabilities	(2,231)	—	(2,231)	—	—	—	—	(2,231)
Unsecured bank loans	(53,191)	—	(53,191)	—	—	—	—	(53,191)
	82,290	11,564	93,854	13,285	(3,730)	9,555	1,915	105,324
Minority interests			—			(4,556)	—	(4,556)
Goodwill			44,954			—	—	44,954
			138,808			4,999	1,915	145,722
Total consideration satisfied by cash			138,808			4,999	1,915	145,722
Net cash (outflow) inflow arising on acquisitions:								
Cash consideration paid			(138,808)			(4,999)	(1,915)	(145,722)
Bank balances and cash acquired			1,442			222	2,104	3,768
			(137,366)			(4,777)	189	(141,954)

36. ACQUISITIONS OF SUBSIDIARIES *(continued)*

The goodwill arising on acquisition of Zhongkang is attributable to the anticipated future operating synergies in the Group's business of manufacture and sale of penicillin products in Inner Mongolia after the acquisition.

Zhongkang, Zhongxing Huanbao and Zhongchen contributed/incurred approximately profit of HK$8,044,000, loss of HK$46,000 and loss of HK$262,000 for the period between the date of acquisition and the balance sheet date, respectively.

If the acquisitions had been completed on January 1, 2007, the Group's revenue for the year would have been approximately HK$5,074 million, and profit for the year would have been approximately HK$490 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on January 1, 2007, nor is it intended to be a projection of future results.

37. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of land and buildings	**13,033**	10,247

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**5,687**	9,249	**2,347**	2,077
In the second to fifth year inclusive	**4,512**	4,307	**4,027**	863
Over five years	**121**	231	**—**	—
	10,320	13,787	**6,374**	2,940

Operating lease payments represent rentals payable by the Group for certain of its office and factory properties. Leases are negotiated and rentals are fixed for an average term of three years.

38. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— property, plant and equipment	**107,026**	77,489
— intangible assets	**16,757**	6,817
	123,783	84,306
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**—**	3,016

The Company had no capital commitment at both balance sheet dates.

39. MAJOR NON-CASH TRANSACTIONS

During the year, approximately HK$1,818,000 (2006: HK$3,232,000) of sales proceeds on disposals of property, plant and equipment were agreed with the suppliers to set off with trade payables for the same amount.

40. CONTINGENT LIABILITIES

(i) As disclosed in the press announcement of the Company dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. These antitrust complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and therefore, suffered losses. The plaintiffs purported to bring these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust laws. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned announcement, there were some other complaints with the same nature as the antitrust complaints filed in the United States. Up to date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary. The legal adviser of the Group has successfully consolidated all such cases to be heard in the Federal Court of New York.

40. CONTINGENT LIABILITIES *(continued)*

On May 3, 2006, the first court meeting was held before a judge of the U.S. District Court for the Eastern District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchaser plaintiff amended its claim and requested that only direct purchasers of the Vitamin C who had not entered into any agreements containing arbitration clauses could be part of the class of purchasers it sought to represent. On June 5, 2007, the court heard the defendants' motions to dismiss based on the legal principles of act of state, foreign sovereign compulsion and international comity. The court has taken those motions under advisement and it is not known when a ruling will be forthcoming.

Submissions concerning whether the direct purchaser case may proceed as a class action have been made during the year. According to the latest timetable fixed by the court, fact discovery is scheduled to be concluded by September 15, 2008, expert discovery is scheduled to be concluded by March 28, 2009 and a joint pre-trial order is due by May 15, 2009. The action is still in the stage of class discovery.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

(ii) At December 31, 2007, a corporate guarantee of approximately HK$638,298,000 (2006: HK$600,000,000) was given by the Company to a bank in the PRC in respect of banking facilities granted to certain subsidiaries of the Company and Huarong. An amount of approximately HK$22,340,000 (2006: Nil) has been utilised by Huarong at the balance sheet date.

41. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were approximately HK$53,570,000 (2006: HK$43,104,000), of which approximately HK$420,000 (2006: HK$521,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

42. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at December 31, 2006 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	100	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	100	—	Investment holding
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd.	PRC	Limited liability cooperative joint venture enterprise	RMB463,490,300	79.04	20.17	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB160,000,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuaug Pharma Group Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	HK$130,000,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuaug Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB135,000,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	US$20,169,000	100	—	Manufacture and sale of pharmaceutical products
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB59,400,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB216,000,000	100	—	Manufacture and sale of pharmaceutical products

42. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Shijiazhuang Pharma Group Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB39,754,680	100	—	Provision of pharmaceutical research and development services
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB50,000,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Hebei Zhongrun Huanbao Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	85	Sewage treatment
Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB18,000,000	80.42	—	Sewage treatment
New subsidiaries in 2007:						
Zhongkang	PRC	Foreign investment enterprise with limited liability	RMB33,000,000	—	100	Manufacture and sale of pharmaceutical products
Zhongxing Huanbao	PRC	Foreign investment enterprise with limited liability	RMB15,000,000	—	51	Sewage treatment
Shijiazhuang Pharma Group (Shijiazhuang) High Medical Technology Development Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB30,000,000	25	58.33	Provision of pharmaceutical research and development services
Zhongchen	PRC	Foreign investment enterprise with limited liability	RMB8,750,000	—	100	Manufacture and sale of pharmaceutical products

None of the subsidiaries had any debentures outstanding at the end of the year or at any time during the year.

Financial Summary

RESULTS

	Year ended December 31,				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	2,478,426	2,450,649	3,192,065	3,538,754	**4,986,059**
Cost of sales	(1,553,466)	(1,819,804)	(2,498,501)	(2,925,429)	**(3,449,641)**
Gross profit	924,960	630,845	693,564	613,325	**1,536,418**
Other income	9,522	14,677	21,157	34,814	**27,278**
Selling and distribution expenses	(94,529)	(131,453)	(182,723)	(232,511)	**(379,203)**
Administrative expenses	(198,323)	(225,503)	(287,014)	(308,094)	**(471,280)**
Other expenses	(23,341)	(15,449)	(26,754)	(6,808)	**(74,822)**
Operating profit	618,289	273,117	218,230	100,726	**638,391**
Share of profit (loss) of a jointly controlled entity	6,548	3,419	(1,099)	(3,350)	**(2,683)**
Change in fair value of a derivative financial instrument	—	—	—	—	**(551)**
Finance costs	(25,361)	(27,959)	(68,139)	(95,776)	**(112,809)**
Profit before tax	599,476	248,577	148,992	1,600	**522,348**
Income tax (charge) credit	(93,916)	(3,185)	7,301	13,763	**(45,569)**
Profit for the year	505,560	245,392	156,293	15,363	**476,779**
Attributable to:					
Equity holders of the Company	504,169	245,011	156,518	15,664	**477,388**
Minority interests	1,391	381	(225)	(301)	**(609)**
	505,560	245,392	156,293	15,363	**476,779**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share:					
Basic	33.27	15.93	10.18	1.02	**31.04**
Diluted	32.83	N/A	N/A	N/A	**N/A**

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	At December 31,				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	3,361,624	4,707,246	5,379,779	5,273,408	**6,458,745**
Total liabilities	(1,231,655)	(2,438,149)	(2,884,251)	(2,622,574)	**(3,087,605)**
Net assets	2,129,969	2,269,097	2,495,528	2,650,834	**3,371,140**
Equity attributable to equity holders of the Company	2,121,697	2,259,039	2,484,832	2,641,641	**3,352,298**
Minority interests	8,272	10,058	10,696	9,193	**18,842**
Total equity	2,129,969	2,269,097	2,495,528	2,650,834	**3,371,140**