

AT THE CUTTING

EDGE

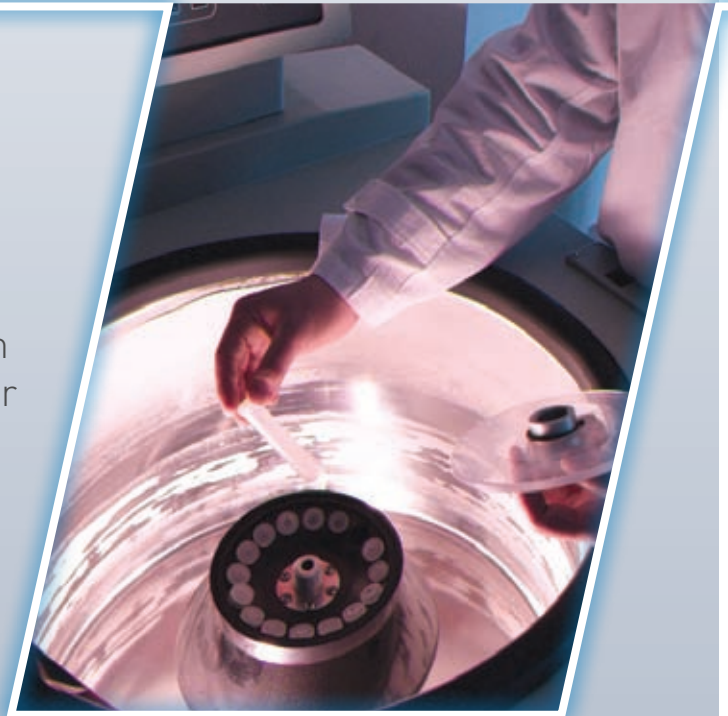
SIHUAN PHARMACEUTICAL HOLDINGS GROUP LIMITED ANNUAL REPORT 2008





AT THE CUTTING EDGE

Our vision is to transform Sihuan, now a leading player in China's cardiocerebral vascular drug sector, into a leading international pharmaceutical company with world-class quality and standards.





Helmed by veteran physicians with strong marketing expertise since our incorporation in 2001, Sihuan has been carefully laying the foundation to be a global player with our consistent focus on drug development and quality processes as well as effective outsourcing models in R&D, manufacturing and distribution.

Through strategic acquisitions we made since listing in 2007, we have beefed up our marketing and R&D capabilities. These are in line with our robust business model, and place us at the Cutting Edge, first in China's fast growing pharmaceutical industry and next, the world.



CONTENTS

Corporate Profile	01
Our Success Formula	02
Chairman's Statement	06
Operations Review	12
Group Financial Summary	15
Board of Directors	18
Key Executives	20
Corporate Information	22
Corporate Governance	24

Sihuan is a reputed and leading manufacturer of cardiocerebral vascular (CV) drugs in China, known for our quality products as well as our cutting-edge capabilities in marketing and R&D.

At Sihuan, we adopt a robust business model, effectively marketing our products through an extensive network of distributors and collecting payments on a cash-on-delivery basis for most of our sales.

CV drugs – in particular Kelinao, Chuanqing and Anjieli – are our main revenue drivers. Going forward, our newly launched GM-1 and Edaravone will boost our business growth and add to Group revenue. We also actively seek out drugs with strong market potential that will enhance and enlarge our portfolio.

Apart from our substantial marketing expertise, Sihuan's R&D emphasis drives our product development pipeline, adding to our competitive edge. To maximise returns, we have our own production facilities for key products, and tap on the strengths of third-party contract manufacturers for our other drugs.

OUR SUCCESS FORMULA

02

Sihuan Pharmaceutical Holdings Group Ltd

Driven by a common vision, our cornerstone founders Dr Che Fengsheng and Dr Guo Weicheng, along with another veteran physician and a Chemistry professor, embarked confidently in 2001 on a carefully orchestrated journey to create a pharmaceutical company they knew would one day rival the best in the industry. Having identified key building blocks that would ensure their success in the Chinese drug industry, they were able to swiftly map out a winning growth strategy for Sihuan – one they have executed skillfully for the past seven years.

Although Sihuan started off small, we were able to kick-start our business growth by launching Kelinao – a product picked right from the start for its excellent market potential. Our fruitful collaborations with leading research institutions and distributors then helped us turn this highly efficacious cardiocerebral vascular (CV) drug into our flagship product, through adroit and resourceful development and marketing.

Sihuan stands ready to replicate this success formula across our entire product range, to enhance the Group's profitability and strengthen our position in the PRC pharmaceutical industry. Our competence in selecting, developing and marketing quality drugs – just the right ones that fill market needs – will propel Sihuan to greater heights.



1. Strong Management Team

We have a strong management with a vast knowledge of the pharmaceutical industry, whose marketing capabilities and diligent work ethic help to drive Sihuan's business growth.

Bringing in top talents well-trained in the R&D area to add to our capabilities, Sihuan has a diverse team united in vision to propel the Group forward in the future.

2. Selecting the Right Drug

Management's extensive experience as physicians and pharmacists, as well as its long training in the marketing of pharmaceutical products, enables Sihuan to pinpoint drugs that demonstrate both strong potential and high marketability. Kelinao, for instance, is an extremely marketable drug that has proved critical to the treatment of CV diseases.

The drugs we select have a high technical content and boast superior quality and efficacy during treatment. Furthermore, most have a wide variety of applications, which makes them easily marketable.



3. Strong R&D Focus

Dr Che bought the rights to develop Kelinao before the birth of Sihuan, after which the drug was brought through the required clinical trial phases to the eventual launch in 2002. The Group also obtained a 20-year patent, expiring in 2024, for the synthesis of Kelinao's raw medicine.

Sihuan adopts a two-pronged approach to R&D through Hainan Sihuan and Shandong R&D Company. Wholly-owned Hainan Sihuan focuses on developing drugs that are the first of their kind in China, as well as other chemical drugs for the local market.

Complementing this approach, 60%-owned Shandong R&D directs its efforts at designing new drug molecules and developing new chemical entities based on the design of known drugs. At Shandong R&D, we also work on improving existing drugs to innovate and develop new drugs with improved efficacy.

In all of its R&D processes, Sihuan adheres strictly to the stringent standards that have been followed since it developed Kelinao. Further, with the addition of Shandong R&D, the quality of our processes has been raised to international standards.

4. Effective Marketing

Sihuan's marketing model reaches out directly to the doctors who prescribe our drugs to their patients, creating the demand for our products. Our marketing team runs academic seminars and conferences on a regular basis to help these users develop a deep understanding of our drugs, including their efficacy and indications. With a more in-depth understanding, the doctors quickly become more willing to prescribe the drugs and recommend them with confidence to patients.

We have also stepped up efforts to enhance our own understanding of the markets we operate in by establishing regional offices in key areas. Through these offices, we obtain vital market information that helps us better cater to the unique needs of various markets.

5. Wide Distribution Network

Sihuan, together with our subsidiary Shenzhen Sihuan, works hand in hand with trusted distributors, who are well-incentivised to promote our products in hospitals across China. As a result, Sihuan is able to tap and ride on the marketing strength of committed individuals, which has allowed us to establish an unrivalled reputation in the local pharmaceutical industry.

This distribution model provides a simple but effective channel that lets us introduce our drugs at an accelerated pace without having to invest heavily in building a comprehensive retail network – a strategy that reins in costs as well as risks.

STRONG R&D FOCUS

04

Sihuan Pharmaceutical Holdings Group Ltd



With our strong R&D focus, Sihuan actively grows our product range at Hainan Sihuan and Shandong R&D through technology and processes which adhere to stringent standards.

CHAIRMAN'S STATEMENT

06

Sihuan Pharmaceutical Holdings Group Ltd

Sihuan achieved excellent results, turning in a record net attributable profit of RMB237.1 million in the financial year ended 31 December 2008.





Dear Shareholders,

The past year saw two major government-led developments in China that we believe are re-shaping the competitive landscape of the pharmaceutical industry there because of the heavy emphasis on both R&D and manufacturing quality. These developments will work in favour of drug companies equipped with marketing and R&D capabilities such as Sihuan.

Why are we positive about these developments? First, the progressive tightening of regulations and their enforcement to ensure the quality of local medications have resulted in a consolidation of the sector over the last few years. This consolidation will weed out all but the 'serious' players

while those remaining will enable the Chinese pharmaceutical industry to move towards global benchmarks.

Second, the government has budgeted RMB850.0 billion over three years to give its 1.5 billion citizens greater access to more affordable healthcare, as well as widened medical insurance coverage. This is expected to enlarge the Chinese pharmaceutical market by RMB50.0 billion. By 2011, at least 90% of China's population will have easy access to far-improved public healthcare benefits.

I believe these changes to the operating environment augur well for Sihuan's prospects. Indeed, 2009 looks to be another rewarding year for the Group as our outsourcing distribution and manufacturing model continues to effectively drive returns

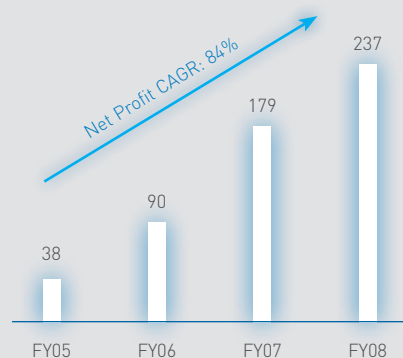
from our drug development and quality processes.

AN EXCELLENT PERFORMANCE IN 2008

Through our commitment to research and quality, Sihuan achieved excellent results, turning in a record net attributable profit of RMB237.1 million in the financial year ended 31 December 2008. This represents a 32% year-on-year (yoy) rise from FY07.

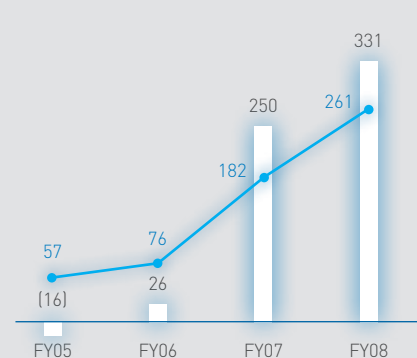
On the sales front, Sihuan reaped the rewards from our systematic efforts to build up marketing channels for our product offering, which effectively complemented our comprehensive distribution network. These sales drivers pushed receipts up to RMB510.0 million, a 78% surge from

STRONG EARNINGS GROWTH (RMB'M)



*CAGR: Compound Annual Growth Rate

PRUDENT CAPITAL MANAGEMENT (RMB'M)



■ Net Cash (Debt)

● Cashflow from Operations

CHAIRMAN'S STATEMENT





the previous year. Sihuan continued to focus on our core business – CV drugs – which contributed 82% of Group revenue in FY08.

The top-selling drugs Kelinao, Anjieli and Chuanqing contributed strongly to our performance, with their sales rising 62% to RMB355.9 million.

Wholly-owned subsidiary Shenzhen Sihuan, which we acquired in 2007, also boosted our sales, adding RMB115.0 million to Group revenue.

In 2008, we remained prudent with our capital management, with our efforts supported by the cash-on-delivery model we apply to most of our sales.

As a result, we achieved a healthy cashflow from operations of RMB261.2 million and grew our net cash position to RMB331.2 million. We also had no borrowings as of 31 December 2008.

Our consistent performance and business growth earned Sihuan a coveted spot on Forbes Asia's list of 200 "Best under a billion" companies last December. We were the only Singapore-listed pharmaceutical firm to be selected for the award in 2008 – a testament to the success of our strategies.

AT THE CUTTING EDGE

We have been building up our strategic efforts to transform Sihuan

into a leading pharmaceutical company. Since our public listing in March 2007, we have made several strategic acquisitions to strengthen our marketing and R&D capabilities.

Our investments and efforts to nurture them have paid off well. Though we are still on the lookout for relevant investment opportunities, our immediate focus will be to integrate and further harness value from these operations. Our focused efforts to improve both the marketing and development of our products will help keep Sihuan among the top players in the industry.

Our near-term goal is to increase our market share in the PRC, especially in second-tier cities and rural areas. This would allow us to capitalise on the government's efforts to make public healthcare more accessible and affordable and to widen medical insurance coverage. Meanwhile, our R&D team will focus on building a strong product pipeline that will drive growth.

Over the long term, our dedication to excellence and commitment to growing shareholder value will enhance our already robust business model and place us at the cutting edge in the pharmaceutical industry in China and eventually the world.

REWARDING OUR VALUED SHAREHOLDERS

In view of the Group's strong performance, we have proposed a final ordinary dividend of RMB15.3 cents per share for FY08 to reward our valued shareholders for their continued support and confidence in Sihuan. This represents a 30% payout, as was promised to our shareholders during our initial public offering in March 2007.

ACKNOWLEDGMENT AND APPRECIATION

Finally, on behalf of my fellow board members, I would like to thank our dedicated management team and staff, who have played a critical role in building Sihuan into what we are today. We would also like to express our gratitude to our strategic business partners, with whom we will continue to work closely. To our shareholders, we want to assure you of our commitment to transforming Sihuan into a world-class company and achieving solid returns for you.

DR CHE FENGSHENG

Executive Chairman and CEO

LEADING MARKETING & DISTRIBUTION CAPABILITIES



Spearheaded by our well-trained sales and marketing team, Sihuan's marketing and distribution capabilities put us ahead as a leading player in the Chinese pharmaceutical industry.

OPERATIONS REVIEW

Effective management and strong operations produced healthy cashflows from operations of RMB261.2 million in FY08. As a result, Sihuan boosted our net cash position to RMB331.2 million with no borrowings as at 31 December 2008.





OVERVIEW

Sihuan reaped solid returns from our robust business model in the financial year ended 31 December 2008 (FY08), achieving a record net attributable profit of RMB237.1 million, a 32% jump over the previous year.

Our consistent efforts to boost sales growth have paid off, with Group revenue surging 78% year-on-year (yoy) to RMB 510.0 million in FY08. Backed by a wide distribution network, our team successfully drove up sales by energetically promoting Sihuan's strong product offering through various marketing channels.

Effective management and strong operations produced healthy cashflows from operations of RMB261.2 million in FY08. As a result, Sihuan boosted our net cash position to RMB331.2 million with no borrowings as at 31 December 2008.

Over the past year, our strategic acquisitions and focus on cutting-edge technology and R&D processes

have enabled Sihuan to grow confidently into a leading player in the CV drug sector in China. Our strong business fundamentals have also helped us cement our position in the industry.

CORE BUSINESS DRIVER – QUALITY PRODUCTS

In 2008, Sihuan successfully expanded our product portfolio, further broadening our range of offerings and diversifying the Group's revenue stream.

The Group's top-selling products over the year were Kelinao, Anjieli and Chuanqing. These three CV drugs brought in sales of RMB355.9 million, an increase of 62% from the previous year.

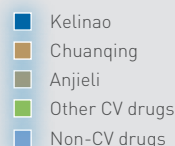
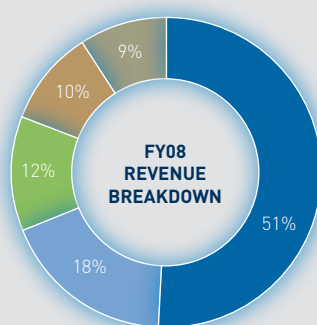
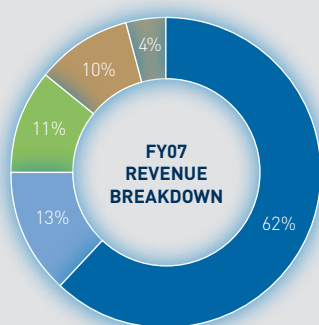
Non-CV drugs also made a significant contribution to the Group's performance, adding RMB91.4 million to Sihuan's total revenue in FY08. This contribution represents about 18% of the Group's net receipts.

Going forward, we will focus our efforts on developing markets for GM-1 and Edaravone, as well as other newly-launched drugs. These two key CV drugs were commercially launched in the last quarter of FY08, and their sales are expected to pick up in the second half of 2009, adding to Group revenue. We also hope that the production approvals obtained for 13 products in 2008 will contribute to our earnings this year.

STRONG R&D FOCUS

R&D capabilities are vital to the development and advancement of any pharmaceutical company. Acting on this belief, we acquired Shandong R&D Company in April 2008 to strengthen our innovative thrust and build up our drug pipeline.

Reaping the rewards from our intense research efforts in 2008, we were able to file applications for 110 domestic patents and four international patents. In addition, we obtained approval to conduct clinical trials on two of our drug candidates.



OPERATIONS REVIEW



R&D capabilities are vital to the development and advancement of any pharmaceutical company. Acting on this belief, we acquired Shandong R&D Company in April 2008 to strengthen our innovative thrust and build up our drug pipeline.

In 2009, we plan to standardise the management of all our R&D projects and ensure rigorous evaluation of every process before embarking on further development, so as to minimise development risks.

At Shandong R&D Company, all trials are conducted according to internationally recognised standards set by the US Food and Drug Administration. This strict adherence to quality enhances the marketability of drugs developed by Sihuan, and puts the Group firmly on an international platform and at the cutting edge as we gear up to move ahead of our competitors. Promising candidates have already been identified and are expected to enter Phase I clinical trials in 2009.

We also actively develop Category I drugs in our research facility at Hainan Sihuan. Most of our drugs are proceeding on schedule, with several targeted for launch within the next three years.

LEADING MARKETING & DISTRIBUTION CAPABILITIES

Sihuan has expanded our sales and marketing team over the past year, increasing the number of marketing personnel to a total of

348. Consequently, we have also extended our reach to a larger pool of distributors and hospitals.

In 2009, the Group hopes to strengthen our position in existing markets by setting up regional offices that will help us deepen our market knowledge and understanding. Sihuan also plans to expand our market share further by penetrating new segments in second-tier cities and rural areas.

Apart from widening our market reach, Sihuan will continue to provide value-added services such as training and academic promotion, in order to enhance customer loyalty. Our commitment to product quality also boosts our efforts to strengthen our customer relationships.

INVESTOR RELATIONS

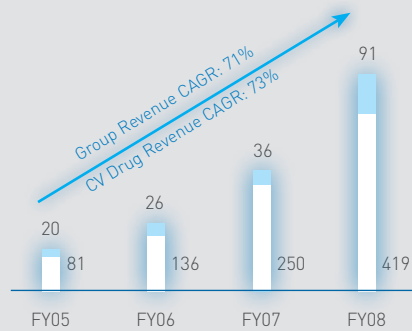
Sihuan actively reaches out to the investing public through the release of timely and accurate information. We strongly value communication with investors and our shareholders. Apart from maintaining close and regular contact with analysts and fund managers, we will continue to explore effective ways of providing updates on our corporate developments and activities.

GROUP FINANCIAL SUMMARY

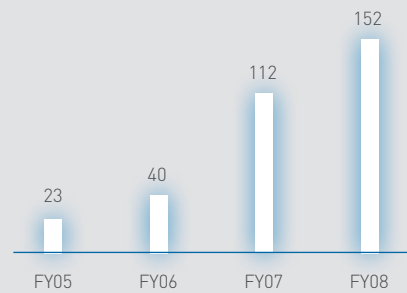
	FY08 RMB'000	FY07 RMB'000	INCREASE/ (DECREASE)%
Sales	510,048	286,349	78
Gross Profit	376,497	225,823	67
Profit Before Tax	287,069	184,452	56
Net Profit Attributable To:			
Equity Holders	233,448	178,826	31
Minority Interest	237,059	179,266	32
	(3,611)	(440)	n.m.
Shareholders' Equity	701,216	524,813	34
Total Assets	862,051	630,546	37
Total Liabilities	146,191	105,733	38

PER SHARE	FY08 RMB cents	FY07 RMB cents	INCREASE/ (DECREASE)%
Earnings	50.4	39.9	26
Net Asset Value	152.3	111.7	36
Final Dividend	15.3	13.0	18

REVENUE BREAKDOWN (RMB'M)



NAV PER SHARE (RMB CENTS)



■ Non-CV Drugs
■ CV Drugs

*CAGR: Compound Annual Growth Rate

VISIONARY MANAGEMENT

16

Sihuan Pharmaceutical Holdings Group Ltd



Experience, diligence, strong marketing capability and excellent contacts of our visionary management have been behind our team's success in driving Sihuan forward in the pharmaceutical industry.

BOARD OF DIRECTORS

18

Sihuan Pharmaceutical Holdings Group Ltd



1.
DR CHE FENGSHENG
Executive Chairman and CEO

Dr Che is a co-founder of the Group. He oversees the Group's overall management, strategic planning and business development and has been the driving force behind the Group's growth and business expansion since our establishment in 2001. Prior to our establishment, Dr Che has more than 13 years of experience as a medical doctor/neurologist as well as general manager in large pharmaceutical companies. In addition to his Bachelor of Medicine (Aviation) and Master of Medicine (Neurology), he also holds

an Executive Master of Business Administration from China Europe International Business School.

2.
DR GUO WEICHENG
Executive Deputy Chairman

Dr Guo is a co-founder of the Group and is responsible for driving Sihuan's sales and marketing efforts. He also actively explores opportunities for mergers and acquisitions, as well as acquisition of products rights. Dr Guo is instrumental to our Group's growth and business expansion since our establishment in 2001. Prior to our establishment, Dr Guo has more than four years of experience

as a general surgeon and more than seven years of experience in the sales and marketing of pharmaceutical products. He holds a Bachelor of Medicine and Master of Medicine (General Surgery) from China's Fourth Military Medical University.

3.
MR MENG XIANHUI
Executive Director and Deputy General Manager (Sales and Marketing)

Mr Meng is responsible for building, expanding and supervising the operations of the sales and marketing network in our Group. Mr Meng has more than ten years of experience in the pharmaceutical industry in



the areas of marketing, sales and distribution of pharmaceutical products. He was also formerly the department head in a state owned enterprise for 10 years.

4.
MR CHONG TECK SIN
Lead Independent Director

Mr Chong is a Board member of the Accounting and Corporate Regulatory Authority since April 2004. From April 1999 to May 2004, Mr Chong was the Group Managing Director (Commercial) of SGX-listed Seksun Corporation Ltd. He joined Glaxo Wellcome Asia Pacific Pte Ltd as its Strategic Development Director for the PRC from 1997 to 1999. He honed his strong marketing skills from 1994 to 1997, as the General Manager (Marketing/Commercial) and subsequently Senior General Manager (Marketing, Singapore Operations and Singapore Branch) of China-Singapore Suzhou Industrial Park Development Co., Ltd.

Mr Chong is currently a Director of three other SGX-listed companies and a Director of British-American Tobacco (Singapore) Pte Ltd. He also sits on the Board of a HKSE GEM-listed company known as CMA Changan Minsheng APLL Logistics Co., Ltd. Since October, 2008, Mr. Chong was also appointed to the Board of National Kidney Foundation. Mr Chong secured

a Public Service Commission/ Monbusho (Ministry of Education, Japan) scholarship to read engineering at the University of Tokyo, graduating with a Bachelor of Engineering in Naval Architecture in 1981. He subsequently obtained a Master of Business Administration from the National University of Singapore in 1987. Mr Chong attended a Senior Executive Development Programme of Glaxo Wellcome conducted by the London Business School in Surrey, UK, and Duke University's Fuqua School of Business in North Carolina, USA in 1998 and 1999 respectively.

5.
MR NG CHER YAN
Independent Director

Mr Ng is currently practicing as a Certified Public Accountant in C Y Ng & Co., an accounting firm which he set up in 1990. Mr Ng started his career with Price Waterhouse Singapore. Mr Ng is currently a Director of several companies listed on the SGX-ST. He is the Chairman of the Braddell Heights Constituency, Citizen's Consultative Committee. Mr Ng obtained a Bachelor of Accountancy from the National University of Singapore in 1983. He is a fellow member of the Institute of Certified Public Accountants of Singapore and also a member of the Institute of Chartered Accountants in Australia.

6.
DR ZHANG JIONGLONG
Non-Executive Director

Dr Zhang has more than eight years of experience as a medical doctor in Shenzhen City People's Hospital, one of the largest hospitals in Shenzhen. Dr Zhang is presently an Executive Director of Chongqing Hai Fu (Technology) Co., Ltd. where he is responsible for the strategic planning of the company's business. He obtained a Graduate Certificate in Medical Treatment from Shantou Medical College, PRC.

7.
MR HUANG ZHENHUA
Executive Director (Research and Development)

Dr Huang is responsible for overseeing the R&D functions of our Group, in particular, the R&D efforts at Shandong R&D Company. He has more than 20 years of experience in the pharmaceutical industry, and leads a team of more than 100 scientists and researchers, most of whom have gained invaluable experience working overseas, especially in the United States and Japan. Mr Huang holds a Bachelor of Pharmacy as well as a Master of Pharmacy from Shenyang Pharmaceutical University.

KEY EXECUTIVES



DR CHE FENGSHENG
Executive Chairman and CEO

See Dr Che's profile on page 18.

DR GUO WEICHENG
Executive Deputy Chairman

See Dr Guo's profile on page 18.

MR MENG XIANHUI
Executive Director and Deputy General Manager (Sales and Marketing)

See Mr Meng's profile on page 18.

MR HUANG ZHENHUA
Executive Director (Research and Development)

See Mr Huang's profile on page 19.

MS GU JIN
Deputy General Manager (Administration and Human Resources)

As the head of the administration and human resources departments of the Group, Ms Gu helps to ensure that our employees are well-trained and motivated to excel in their work. From 1993 to 1996, she was secretary to the Chief Executive Officer of Shenzhen

Tong Yun Group before joining the securities department of the company. She graduated in Finance from Lan Zhou Commerce College in the PRC in 1993.

MR CHOI YIAU CHONG
Chief Financial Officer

Mr Choi is responsible for overseeing and managing the accounting and finance functions of our Group. Prior to joining our Group, he gained his finance and accounting experience at a public listed company and Deloitte & Touche. He is a member of the Chartered Institute of Management Accountants (UK) and also a member of the Institute of Certified Public Accountants of Singapore.

DR HUO CAIXIA
Assistant General Manager (Research and Development)

Dr Huo is responsible for the registrations of pharmaceutical products and assists in the overseeing the R&D functions of our Group. Between 2002 and 2004, she was an assistant researcher at the Chemistry Research Institution of the Chinese Academy of Sciences. In addition to her Bachelor of



Science (Pharmacy) and Master of Science (Pharmaceutical Chemistry), she holds a Doctor of Science (Pharmaceutical Chemistry) from Beijing University.

MS JIA ZHONGXIN

Chief Operating Officer

Ms Jia is responsible for the daily operations of the Group. She has held various managerial positions in many companies. Between January 2006 to November 2007, Ms Jia headed the biomedicine department of China Baoan Group Co., Ltd and was also Chairman of Shenzhen Daphne Pharmaceutical Co., Ltd. Before then, she was the Chief Executive Officer of Wuhan Ma Ying Long Pharmaceutical Co., Ltd. and Chairman of Wuhan Ma Ying Long Chained Pharmacies Co., Ltd from December 2002 to December 2005.

MR LIN GUOTAN

Deputy General Manager (Hainan Sihuan)

Mr Lin is in charge of Hainan Sihuan Pharmaceutical Co., Ltd., our key marketing arm. He started his career in the pharmaceutical industry in 1993 and joined Sihuan in 2005 as a

marketing director. He was promoted to deputy general manager of Hainan Sihuan in 2007. He holds a Master of Business Administration from Tongji University.

DR SONG YUNTAO

Chief Scientific Officer (Shandong R&D)

Mr Song obtained his PhD in Chemistry from the University of Wisconsin at Madison in the United States and gained valuable R&D experience at top research institutes including 15 years experience with Pfizer Inc. Before joining Sihuan, he was President and Chief Executive Officer of Beijing Pharma Sciences Co., Ltd, a leading contract research organisation (CRO) in Beijing. He is now responsible for the design, research and development of new drugs at both Shandong R&D and the Hainan Research Institute.

MR XIA ZHONG NING

Head of Hainan CVD Research Institute

Mr Xia is in charge of supervising the research and development of new drugs at Hainan CVD Research Institute. Before joining our Group, he

was head of several research houses, and has 15 years of experience in researching and developing new drugs. He is a licensed pharmacist, as well as an expert on compliance standards for Good Manufacturing Practices (GMP) and Good Laboratory Practices (GLP).

MS YUAN TINGJUN

Deputy General Manager (Production and Quality Control)

Ms Yuan is responsible for overseeing the production and quality control functions of our Group. Before joining our Group, she held various managerial and marketing posts in several pharmaceutical companies. She also had seven years of experience as a researcher during which she carried out research on Chinese medicines. Ms Yuan holds a Bachelor of Science (Chemistry) and a Master of Science from Sichuan University.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr Che Fengsheng
(Executive Chairman and CEO)

Dr Guo Weicheng
(Executive Deputy Chairman)

Mr Meng Xianhui
(Executive Director)

Mr Huang Zhenhua
(Executive Director)

Non-Executive Director

Dr Zhang Jionglong
(Non-executive Director)

Independent Directors

Mr Chong Teck Sin
(Lead Independent Director)

Mr Ng Cher Yan
(Independent Director)

AUDIT COMMITTEE

Mr Ng Cher Yan (Chairman)
Mr Chong Teck Sin
Dr Zhang Jionglong

RENUMERATION COMMITTEE

Mr Chong Teck Sin (Chairman)
Mr Ng Cher Yan
Dr Zhang Jionglong

NOMINATING COMMITTEE

Mr Chong Teck Sin (Chairman)
Mr Ng Cher Yan
Dr Zhang Jionglong
Dr Che Fengsheng

BERMUDA RESIDENT REPRESENTATIVE

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

COMPANY SECRETARY

Ms Lim Mee Fun
Ms Lim Aik Kun

AUDITORS

PricewaterhouseCoopers LLP
Public Accountants and Certified
Public Accountants
8 Cross Street #17-00 PWC Building
Singapore 048424
Partner-in-charge: Ms Trillion So
(Since the financial year ended
31 December 2007)

REGISTERED OFFICE

Clarendon House
2 Church Street
P.O. Box HM1022
Hamilton HM DX
Bermuda

PRINCIPAL OFFICES

Singapore
96 Robinson Road
#14-04 SIF Building
Singapore 068899

Haikou, Hainan

31st Floor, Xinda Commercial Plaza
No. 48 Guomao Avenue
Haikou City 570125
Hainan Province, PRC

Beijing

Sanjianfang Airport Yard
Zhangjiawan Town
Tongzhou District
Beijing 101114, PRC

Shenzhen

4th Floor, No. 802 Building
Sun Gang Warehouse
North Bao'an Road
Luo Hu District
Shenzhen City, PRC

SINGAPORE SHARE REGISTRAR AND SHARE TRANSFER AGENT

Tricor Barbinder Share Registration
Services
(A division of Tricor Singapore Pte Ltd)
8 Cross Street
#11-00 PWC Building
Singapore 048424

CORPORATE DIRECTORY

Company Registration No: 38317

Corporate Website:
www.sihuanpharm.com
www.sihuanpharm.com.cn

CONTENTS

Corporate Governance	24
Financial Statements	32
Statistics of Shareholdings	78
Notice of AGM	80
Proxy Form	85

CORPORATE GOVERNANCE REPORT

The Board of Directors ("Board") and Management of Sihuan Pharmaceutical Holdings Group Ltd ("the Company") is committed to observe and maintain good corporate governance to protect the interests of the shareholders and other stakeholders and to promote investors' confidence.

This report sets out the Company's corporate governance practices with specific reference to the principles of the new Code of Corporate Governance 2005 ("Code") and the extent of compliance thereto.

Principle 1 - The Board's conduct of Affairs

The direction and control of the Group rest firmly with the Board as it effectively assumes the overall responsibility for corporate governance, strategic direction, formulation of policies and overseeing the investments and operations of the Group.

In addition to its statutory duties, the Board oversees the overall strategy, supervises the management and reviews the affairs, financial performance and position of the Company and the Group. The key matters which come under the purview of the Board includes:-

1. Approving the Group's strategic plans, key operational initiatives, major investments and divestments and funding requirements;
2. Reviewing the financial and operating performance of the Group and external issues material to the Group's prospects;
3. Evaluating the progress towards achieving the Group's financial and business objectives and annual strategic plans;
4. Monitoring, through reports received directly or from various committees, the significant risks facing the Group.; and
5. Overseeing the processes for internal control, risk management, financial reporting and compliance.

To facilitate effective execution of its function, the Board has delegated specific responsibilities to four (4) sub-committees namely, Audit Committee ("AC"), Nominating Committee ("NC"), Remuneration Committee ("RC") and Executive Committees ("EC"). The terms of reference of board committees set out each committee's role and authority to examine any particular issue and report to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

The newly appointed Directors would be briefed by Management on the history, business operations and corporate governance practices of the Group. The Company makes arrangement for the Directors to attend seminars and briefing sessions from time to time to enable them to keep pace with regulatory changes, where such changes have a material bearing on the Group.

The number of Board and Board Committee meetings held and the attendance of each Director during the financial year ended 31 December 2008 are set out as follows:-

	BOARD	AUDIT COMMITTEE	NOMINATING COMMITTEE	REMUNERATION COMMITTEE
No. of meetings	4	4	1	1
No. of meetings attended by respective directors				
Dr Che Fengsheng	4	1*	1	-
Dr Guo Weicheng	4	1*	-	-
Mr Meng Xianhui	4	1*	-	-
Mr Huang Zhenhua	1	1*	-	-
Dr Zhang Jionglong	4	4	1	1
Mr Chong Teck Sin	4	4	1	1
Mr Ng Cher Yan	4	4	1	1

* Dr. Che, Dr. Guo, Mr. Meng and Mr. Huang are not members of the Audit Committee.

Principle 2 : Board Composition and Balance

The Board currently comprises seven (7) Directors, three (3) of whom are non-executive Directors and of these three (3) non-executive Directors, two (2) of them are independent. The Board is able to exercise objective judgement on corporate affairs independently from Management. The Board is also supported by various sub-committees, namely, the Nominating Committee, the Audit Committee, the Remuneration Committee and the Executive Committee.

The Board is of the opinion that, given the scope and nature of the Group's operations, the present size of the Board is appropriate for effective decision making. The Board is made up of Directors who are qualified and experienced in various fields including medical and pharmaceutical, sales and marketing, business administration, finance and accountancy. The profile of each of the Directors is provided in Pages 18 and 19 of this Annual Report. Accordingly, the current Board comprises of persons who as a group, have core competencies necessary to lead and manage the Company.

The non-executive directors are involved in reviewing the corporate strategies, business operations and practices of the Group. The non-executive directors would arrange to meet without the presence of management or executive directors to review matters that may be raised privately at least once a year.

Executive Committee ("EC") which comprises six (6) members as follow to carry out the daily operational activities such as budgeting, investment, acquisition and disposal of assets, etc including significant business negotiation with external party(ies) for any transaction which does not exceed SGD 2million or RMB 10million:-

Dr Che Fengsheng	(Chairman)
Dr Guo Weicheng	(Member)
Mr Meng Xianhui	(Member)
Madam Gu Jin	(Member)
Mr Choi Yiau Chong	(Member)
Madam Jia Zhongxin	(Member)

The EC also monitors every aspect of the Group's business on a continuing basis as well as analyses and draws up all business proposals in details for submission to the Board for consideration. The EC meets on a monthly basis and, as and when required.

Principle 3 : Chairman and Chief Executive Officer

It is the view of the Board that it is in the best interests of the Group to adopt a single leadership structure, that is where the CEO and the Executive Chairman of the Board is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

The Group's Executive Chairman and CEO is Dr Che Fengsheng, who is responsible for the overall operations, corporate policies, business development and investment strategies of the Group. He is responsible for the day-to-day operation of the Group as well as the control of quality, quantity and timeliness of information flow between the Board and Management. He plays an instrumental role in developing the business of the Group and provides the Group with strong leadership and vision.

In view of Dr Che Fengsheng's concurrent appointment as the Company's Executive Chairman and CEO, the Company had appointed Mr Chong Teck Sin as the Lead Independent Director. The Lead Independent Director would be available to Shareholders where they have concerns and when contact through the normal channel of the Company's Executive Chairman or Chief Financial Officer has failed to resolve or when such contact is inappropriate.

Major decisions made by the Executive Chairman and CEO are brought up by him for discussion at EC before submitting to Board meetings for review. His performance and appointment to the Board are reviewed periodically by the NC and his remuneration package is reviewed periodically by the RC. The RC comprises a majority of independent directors of the Company. As such, the Board believes that there are adequate safeguards against an uneven concentration of power and authority in a single individual.

CORPORATE GOVERNANCE REPORT

As the Chairman, Dr Che Fengsheng is also responsible for, among others,

- (a) schedule meetings of the Board and set the Board meeting agenda in consultation with the Company's senior management;
- (b) lead the Board to ensure its effectiveness on all aspects of its role;
- (c) exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
- (d) ensure compliance with the Company's guidelines on corporate governance.

Principle 4 : Board Membership

To facilitate a formal and transparent process for the appointment of new Directors, the Board has formed the Nominating Committee ("NC") which comprises:-

Mr Chong Teck Sin	(Chairman)
Mr Ng Cher Yan	(Member)
Dr Zhang Jionglong	(Member)
Dr Che Fengsheng	(Member)

Out of four (4) Committee members, three (3) are non-executive Directors of the Company. Save for Dr Zhang Jionglong and Dr Che Fengsheng, the other members of the Committee are independent Directors.

The independence of each Director has been reviewed annually by the NC based on the Code's definition of what constitutes an independent director. Based on this review, the NC confirmed the independence of the Directors concerned.

The principal functions of the NC are:-

1. re-nomination of the Directors having regard to each Director's contribution and performance;
2. determine annually whether or not a Director is independent; and
3. deciding whether or not a Director is able to and has adequately carrying out his duties as a Director of the Company in particular where the Director concerned has multiple board representations on various companies.

The role of the NC is to decide on how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, which address how the Board has enhanced long-term Shareholders' value. The Board will also implement a process to be carried out by the NC for assessing the contribution of each individual Director to the effectiveness of the Board.

In addition, the NC will oversee the appointment and induction process for Directors. Candidates are selected for their character, judgement and business acumen. New Directors will be appointed based on the NC's recommendations. Where a Director has multiple board representations, the NC will evaluate whether a Director is able to and has adequately carried out his or her duties as Director of the Company.

Pursuant to the Bye-Laws of the Company,

- (a) Each Director shall retire at least once every three (3) years and shall be eligible for re-election; and
- (b) Any Director appointed by the Board shall retire at the next Annual General Meeting ("AGM") of the Company and shall then be eligible for re-election.

Principle 5 : Board Performance

The NC has formulated and adopted a formal process for evaluation of the performance of the Board in accordance with performance criteria determined. The NC will consider a number of factors, including whether the financial target is achieved, the performance of the Board as a whole, the performance of individual Director which includes the attendance and contribution of each Director during Board meetings.

Principle 6 : Access to Information

The Board is furnished with Board papers prior to Board meetings. These papers are issued in advance to give sufficient time to the Directors to obtain additional information or explanations from Management, if necessary. The directors may communicate directly with the Management and Company Secretary on all matters whenever they deem necessary. The Company Secretary is responsible for ensuring that Board procedures are followed and assisting the management in ensuring that the Company complies with listing rules and regulations where applicable.

The Directors, in carrying out their duties whether individually or as a group, have direct access to the independent professional advisors to obtain advice. Any cost of obtaining such professional advice will be borne by the Company.

Principle 7 : Remuneration Committee**Principle 8 : Level and mix of Remuneration**

The Remuneration Committee ("RC") comprises all Non-Executive Directors with the majority being independent:-

Mr Chong Teck Sin	(Chairman)
Mr Ng Cher Yan	(Member)
Dr Zhang Jionglong	(Member)

The RC's principal role includes recommending to the Board a framework of remuneration for the Board and key executives of the Group and determining specific remuneration packages for each of the Executive Directors. The recommendations of the Remuneration Committee will be submitted for endorsement by the Board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind shall be reviewed by the RC.

The Service Agreements entered into between the Company and the respective Executive Directors, namely, Dr Che Fengsheng, Dr Guo Weicheng and Mr Meng Xianhui ("the Appointees") are for a period of three (3) years ("Service Agreements") commencing 23 March 2007. The Service Agreements covers the terms of employment, specifically salaries and the duties and obligations of the Appointees. There are non-competition covenants and confidentiality obligations under the Service Agreements. Under the Service Agreements, the salaries of the respective Executive Directors are subject to annual review by the Board.

Principle 9 : Disclosure on Remuneration

The annual remuneration of each individual director and key executive for financial year ended 31 December 2008, disclosed within the bands of remuneration, are as follows: -

NAME OF DIRECTOR	REMUNERATION BANDS	
	UP TO S\$250,000	S\$250,001 TO S\$500,000
Dr Che Fengsheng	-	X ⁽¹⁾
Dr Guo Weicheng	-	X ⁽¹⁾
Mr Meng Xianhui	X ⁽¹⁾	-
Mr Huang Zhenhua	X ⁽¹⁾	-
Dr Zhang Jionglong	-	-
Mr Chong Teck Sin	X ⁽²⁾	-
Mr Ng Cher Yan	X ⁽²⁾	-

CORPORATE GOVERNANCE REPORT

Notes:

- (1) Pursuant to the Service Agreements, Dr Che Fengsheng, Dr Guo Weicheng, Mr Meng Xianhui and Mr. Huang Zhenhua would be entitled to monthly salary, subject to annual review by the Board. Dr Che Fengsheng, Dr Guo Weicheng and Mr Meng Xianhui would also be entitled to an annual performance bonus based on a proportion to the Group's audited consolidated profit before tax and before payment of the performance bonus in a financial year excluding any extraordinary and exceptional items. The salient terms of the Service Agreements is disclosed on Pages 161 and of the Company's Prospectus dated 13 March 2007 (the "Prospectus").
- (2) The remuneration in the form of Directors' fees is subject to the approval by the shareholders at the forthcoming Annual General Meeting.

Except for the disclosures stated above, there are no other existing service agreements entered between the Company and any of the Company's Directors.

Remuneration of Key Executives

Details of remuneration paid to the top seven (7) Executives (who are not Directors of the Company) of the Group for the financial year ended 31 December 2008 are set out below. For competitive reasons, the Company is only disclosing the bands of remuneration of each executive for the financial year ended 31 December 2008 under review as follows: -

NAME OF KEY EXECUTIVES	REMUNERATION BANDS	
	UP TO S\$250,000	S\$250,001 TO S\$500,000
Mr Choi Yiau Chong	X	-
Mdm Gu Jin	X	-
Dr Huo Caixia	X	-
Mdm Jia Zhongxin	X	-
Mr Lin Guotan	X	-
Mr Xia Zhongnin	X	-
Mdm Yuan Tingjin	X	-

Principle 10 : Accountability of the Board and Audit

In presenting the annual financial statements and announcements of financial results to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company and Group's performance, position and prospects. The Management will provide the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a regular basis.

Principle 11 : Audit Committee

The Audit Committee ("AC") comprises three (3) members:-

Mr Ng Cher Yan	(Chairman)
Mr Chong Teck Sin	(Member)
Dr Zhang Jionglong	(Member)

The AC members are all non-executive Directors. The members collectively have many years of experience in accounting, audit, business and financial management. The Board considers that the members of the AC are appropriately qualified to discharge the responsibilities of the AC.

The AC has written terms of reference. Specifically, the AC meets on a periodic basis to perform the following functions, among others,

- (a) to review the audit plans of the external auditors of the Company and, where applicable, the internal auditors, including the results of the review and evaluation of the Company's system of internal controls.
- (b) to review the consolidated financial statements of the Company and the external auditors' reports on those financial statements, and discuss any significant adjustments, major risk areas, changes in accounting policies, compliance with Singapore financial reporting standards, concerns and issues arising from their audits including any matters which the auditors may wish to discuss in the absence of management, where necessary, before submission to the Board for approval.
- (c) to review and discuss with auditors any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position and the management's response.
- (d) to review the co-operation given by the Company's officers to the external auditors.
- (e) to nominate external auditors for appointment or re-appointment.
- (f) to review and approve internal control procedures and arrangements for all interested person transactions, and if during these periodic reviews, the AC believes that the procedures are not sufficient, the Company will revise the internal controls procedures.
- (g) to review and ratify all interested person transactions falling within the scope of Chapter 9 of the Listing Manual, if any.
- (h) to review any potential conflicts of interest.
- (i) to undertake such reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the AC.
- (j) to generally, perform such other functions and duties as may be required by the relevant laws or provisions of the Listing Manual (as may be amended from time to time).

The AC is also authorised to investigate any matter within its terms of reference. It has full access to and the co-operation of Management and the full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

On an annual basis, the AC meets with the internal and external auditors, without the presence of management, to review any matters that might be raised privately.

The AC has undertaken a review of all non-audit services provided by the external auditors and in the AC's opinion, since there are no non-audit services, the independence of the external auditors are not affected.

The Group has implemented a 'whistle-blowing' policy where staff of the Group can raise concerns on any possible improprieties in relation to financial reporting and other matters.

Principle 12 : Internal controls

Principle 13 : Internal audit

The Board understands the importance of maintaining sound internal controls to safeguard the shareholders' investments and the Company's assets. In view thereof, the Group had outsourced its internal audit function to an independent assurance service provider ("Internal Auditors") who will report directly to the members of the AC. The primary objective of the internal audit is to assure the AC and the Board that sound risk management processes and controls are in place and operating effectively.

CORPORATE GOVERNANCE REPORT

Internal auditors and external auditors (where applicable) would conduct regular reviews of the system of internal controls to assess its effectiveness. Any significant or material internal control deficiencies would be brought to the attention of the AC and senior management for remedial action.

Based on the information provided to the AC, nothing has come to the AC's attention to cause the AC to believe that the system of internal controls and risk management is inadequate.

Principle 14 and 15 : Communications with the Shareholders

(a) Communications with Shareholders

In line with the continuous obligations of the Company pursuant to the Listing Manual of the SGX-ST, the Company's policy is to ensure timely and adequate disclosure of material information to the shareholders of the Company. In this respect, the Company announces its results to shareholders on a quarterly basis. The Company does not practice selective disclosures.

Information is disseminated / made available to the shareholders through:-

- (i) SGXNET announcements and new releases;
- (ii) Annual Reports; and
- (iii) Company's website at www.sihuanpharm.com / www.sihuanpharm.com.cn

(b) Greater Shareholders Participation

At general meetings, shareholders of the Company are given the opportunity to air their views and ask Directors or Management questions regarding the Company.

The AGM of the Company is the principal forum for dialogue and interaction with all shareholders. All shareholders will receive the Annual Report and the notice of AGM. At the AGM, shareholders will be given the opportunity to voice their views and to direct questions regarding the Group to the Directors including the chairpersons of each of the Board committees. Board members, Management as well as external auditors will be present at the meetings to address shareholders' queries.

The Articles allow a member of the Company to appoint not more than two (2) proxies to attend and vote at general meetings.

ADDITIONAL INFORMATION

DEALINGS IN SECURITIES

[SGX-ST's Listing Manual Rule 1207(18)]

In line with the Listing Rule 1207(18) of the Listing Manual, the Company issues notification to its officers not to deal in the securities of the Company during the period commencing two weeks before and up to the date of announcement of the Company's quarterly results and one month before and up to the date of announcement of the Company's full-year results, or while in possession of unpublished price-sensitive information.

The Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within permitted trading time. In addition, the Directors, management and officers of the Group are discouraged from dealing in the Company's securities on short-term considerations.

RISK MANAGEMENT**[SGX-ST's Listing Manual Rule 1207(4)(d)]**

The Company, with the assistance of the internal and external auditors, would regularly review and improve its business on an operational level by taking into account the risk management perspective. The Company seeks to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Company would review all significant control policies and procedures and highlights all significant matters to the AC.

INTERESTED PERSON TRANSACTIONS**[SGX-ST's Listing Manual Rule 907]**

There were no interested person transactions for the financial year ended 31 December 2008.

MATERIAL CONTRACTS**[SGX-ST's Listing Manual Rule 1207(8)]**

There are no material contracts of the Company or its subsidiaries involving the interest of the Executive Chairman, Chief Executive Officer, any Director or controlling shareholder subsisting at the end of the financial year.

DIRECTORS' REPORT

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2008 and the balance sheet of the Company as at 31 December 2008.

Directors

The directors of the Company in office at the date of this report are as follows:

Che Fengsheng
Guo Weicheng
Meng Xianhui
Zhang Jionglong
Chong Teck Sin
Ng Cher Yan
Huang Zhenhua (appointed on 8 August 2008)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

<u>HOLDINGS REGISTERED IN NAME OF DIRECTOR OR NOMINEE</u>		<u>HOLDINGS IN WHICH DIRECTOR IS DEEMED TO HAVE AN INTEREST</u>	
AT	AT	AT	AT
31.12.2008	1.1.2008	31.12.2008	1.1.2008

Plenty Gold Enterprises Limited (immediate and ultimate holding company)

(Shares of US\$1 each)

Che Fengsheng	3,825,000	3,825,000	-	-
Guo Weicheng	1,875,000	1,875,000	-	-
Meng Xianhui	825,000	825,000	-	-
Zhang Jionglong	760,714	975,000	-	-
Huang Zhenhua	214,286	-	-	-

Directors' interests in shares or debentures (continued)

Che Fengsheng and Guo Weicheng, who by virtue of their interest of not less than 20% each of the issued share capital of Plenty Gold Enterprises Limited, immediate and ultimate holding company, are deemed to have an interest in the entire issued share capital of the immediate and ultimate holding company's wholly owned subsidiaries and in the shares held by the immediate holding company in the following subsidiaries.

Company	HOLDINGS REGISTERED IN NAME OF DIRECTOR OR NOMINEE		HOLDINGS IN WHICH DIRECTOR IS DEEMED TO HAVE AN INTEREST	
	AT	AT	AT	AT
	31.12.2008	1.1.2008	31.12.2008	1.1.2008
(Ordinary shares)				
Che Fengsheng	10,265,000	-	324,000,000	350,000,000
Guo Weicheng	9,435,000	-	324,000,000	350,000,000
Interest in registered capital:			RMB	RMB
Hainan Sihuan Pharmaceutical Co., Ltd	-	-	200,000,000	200,000,000
Beijing Sihuan Pharmaceutical Co., Ltd	-	-	30,353,000	30,353,000
Hainan Sihuan Pharmaceutical Information Co., Ltd	-	-	1,000,000	1,000,000
Hainan Sihuan Technical Pharmaceutical Co., Ltd	-	-	1,000,000	1,000,000
Hainan Sihuan Cardiocerebral Vascular Drugs Research Institute Co., Ltd	-	-	6,000,000	6,000,000
Shenzhen Sihuan Pharmaceutical Co., Ltd	-	-	3,000,000	3,000,000
KBP Biomedical Co., Ltd	-	-	50,000,000	-
Hainan Sihuan Pharmaceutical Sales Co., Ltd	-	-	2,000,000	-

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements and in this report.

By virtue of Section 7 of the Singapore Companies Act, Dr Che Fengsheng and Dr Guo Weicheng are deemed to have an interest in the Company and all the related corporations of the Company.

The directors' interests in the ordinary shares of the Company as at 21 January 2009 were the same as those as at 31 December 2008.

Share options

There were no options granted during the financial year to subscribe for unissued shares of the Company or its subsidiaries.

No shares have been issued during the financial year by virtue of the exercise of the options to take up unissued shares of the Company and its subsidiaries.

There were no unissued shares of the Company and its subsidiaries under option at the end of the financial year.

DIRECTORS' REPORT

34

Sihuan Pharmaceutical Holdings Group Ltd

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

CHE FENGSHENG
Director

31 March 2009

GUO WEICHENG
Director

STATEMENT BY DIRECTORS

For the financial year ended 31 December 2008

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 37 to 77 are drawn up so as to present fairly, in all material respects, the state of affairs of the Company and of the Group as at 31 December 2008 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

CHE FENGSHENG
Director

31 March 2009

GUO WEICHENG
Director

INDEPENDENT AUDITOR'S REPORT

To the Members of Sihuan Pharmaceutical Holdings Group Ltd.

36

Sihuan Pharmaceutical Holdings Group Ltd

We have audited the accompanying financial statements of Sihuan Pharmaceutical Holdings Group Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 37 to 77, which comprise the balance sheets of the Company and of the Group as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting control sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with Singapore Financial Reporting Standards so as to present fairly, in all material respects, the state of affairs of the Company and of the Group as at 31 December 2008, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore, 31 March 2009

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2008

	NOTES	GROUP	
		2008 RMB'000	2007 RMB'000
Revenue	4	510,048	286,349
Cost of sales	5	(133,551)	(60,526)
Gross profit		376,497	225,823
Other (losses)/gains – net	4	(7,461)	20,393
Expenses			
- Selling and marketing	5	(38,906)	(22,732)
- Administrative	5	(53,405)	(38,856)
- Finance	7	(83)	(176)
Share of profit of an associated company		10,427	-
Profit before income tax		287,069	184,452
Income tax expense	8	(53,621)	(5,626)
Net profit		233,448	178,826
Attributable to:			
Equity holders of the Company		237,059	179,266
Minority interest		(3,611)	(440)
		233,448	178,826
Earnings per share attributable to equity holders of the Company			
- Basic earnings per share (RMB cents)	9	50.43	39.93
- Diluted earnings per share (RMB cents)	9	50.43	39.93

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2008

38

Sihuan Pharmaceutical Holdings Group Ltd

	NOTES	GROUP		COMPANY	
		2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
ASSETS					
Current assets					
Cash and cash equivalents	10	331,178	262,380	49,396	82,244
Trade and other receivables	11	71,424	24,714	36,349	27,002
Inventories	12	39,395	22,953	-	-
		441,997	310,047	85,745	109,246
Non-current assets					
Investments in subsidiaries	13	-	-	208,617	208,617
Investment in an associated company	14	61,142	-	-	-
Property, plant and equipment	15	117,287	78,675	-	-
Land lease rights	16	16,234	6,576	-	-
Other non-current assets	17	-	45,000	-	-
Intangible assets	18	225,391	190,248	-	-
		420,054	320,499	208,617	208,617
Total assets		862,051	630,546	294,362	317,863
LIABILITIES					
Current liabilities					
Trade and other payables	19	89,551	68,826	17,908	14,911
Current income tax liabilities	8	37,643	14,693	-	-
Borrowings	20	-	12,000	-	-
		127,194	95,519	17,908	14,911
Non-current liabilities					
Deferred income tax liabilities	21	18,997	10,214	-	-
		18,997	10,214	-	-
Total liabilities		146,191	105,733	17,908	14,911
NET ASSETS		715,860	524,813	276,454	302,952
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	69,262	69,262	69,262	69,262
Share premium	22	182,909	182,909	182,909	182,909
Other reserves	23	75,255	45,626	-	-
Retained earnings		373,790	227,016	24,283	50,781
		701,216	524,813	276,454	302,952
Minority interest		14,644	-	-	-
Total equity		715,860	524,813	276,454	302,952

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2008

NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2008	69,262	182,909	45,626	227,016	-	524,813
Total recognised gains/(losses) - Net profit/(loss) for the financial year	-	-	-	237,059	(3,611)	233,448
Acquisition of a subsidiary	-	-	-	-	18,255	18,255
Dividends relating to 2007 paid	24	-	-	(60,656)	-	(60,656)
Transfer to other reserves	23	-	-	29,629	-	-
Balance as at 31 December 2008	69,262	182,909	75,255	373,790	14,644	715,860
Balance as at 1 January 2007	54,413	-	24,775	68,601	2,661	150,450
Total recognised gains/(losses) - Net profit/(loss) for the financial year	-	-	-	179,266	(440)	178,826
Transfer to other reserves	23	-	-	20,851	-	-
Issue of shares	22	14,849	193,338	-	-	208,187
Share issue expenses ⁽¹⁾	22	-	(10,429)	-	-	(10,429)
Acquisition of additional interest in a subsidiary	-	-	-	-	(2,221)	(2,221)
Balance as at 31 December 2007	69,262	182,909	45,626	227,016	-	524,813

⁽¹⁾ Share issue expenses represent incremental costs which were directly attributable to the issuance of new shares pursuant to the initial public offering in Singapore.

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2008

40

Sihuan Pharmaceutical Holdings Group Ltd

	NOTES	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Net profit		233,448	178,826
Adjustments for:			
- Income tax		53,621	5,626
- Depreciation of property, plant and equipment		8,330	5,362
- Amortisation of land lease rights		942	382
- Goodwill from purchase of minority interest written off		-	264
- Amortisation of intangible assets		17,118	8,648
- Allowance for impairment of intangible assets		22,805	930
- Intangible assets written off		1,535	-
- Loss on disposal of property, plant and equipment		30	-
- Gain on sale of equity investments		-	(13,252)
- Interest income		(4,259)	(1,271)
- Share of profit of an associated company		(10,427)	-
Operating cash flow before working capital changes		323,143	185,515
Changes in working capital, net of effects from acquisition of subsidiaries:			
- Inventories		(16,442)	(9,535)
- Trade and other receivables		(38,339)	(1,427)
- Trade and other payables		18,889	18,860
Cash generated from operations		287,251	193,413
Income tax paid		(26,082)	(11,150)
Net cash generated from operating activities		261,169	182,263
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		-	302
Proceeds from sale of equity investments		-	37,936
Acquisition of subsidiaries, net of cash acquired	10	(33,833)	(36,305)
Deposits for other non-current assets		-	(45,000)
Purchase of equity investments		-	(24,684)
Purchase of property, plant and equipment		(29,424)	(30,537)
Purchase of intangible assets		(23,835)	(55,927)
Acquisition of minority interest	10	-	(2,485)
Payment for acquisition of subsidiary in prior year		(6,000)	-
Interest received		4,259	1,271
Investment in an associated company	10	(30,882)	-
Net cash used in investing activities		(119,715)	(155,429)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	197,758
Dividends paid to equity holders of the company		(60,656)	-
Repayment of borrowings		(12,000)	(4,000)
Net cash (used in)/provided by financing activities		(72,656)	193,758
Net increase in cash and cash equivalents		68,798	220,592
Cash and cash equivalents at the beginning of the year		262,380	41,788
Cash and cash equivalents at the end of the year	10	331,178	262,380

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

Sihuan Pharmaceutical Holdings Group Ltd (the "Company" registration number: 38317) is listed on the Singapore Exchange and incorporated in Bermuda on 26 April 2006 under the Bermuda Companies Act as a private limited company.

The principal activity of the Company is that of investment holding. The address of the Company's registered office is Clarendon House, 2 Church Street, P.O. Box HM1022, Hamilton HM DX, Bermuda.

The address of the principal place of business of the Group is 31st Floor, Xinda Commercial Plaza, No. 48 Guomao Avenue, Haikou City 570125, Hainan Province, People's Republic of China ("PRC").

During the year, the Group acquired control of KBP Biomedical Co., Ltd ("Shandong R&D" or "KBP Biomedical"), a limited liability company established in the People's Republic of China ("PRC"). Its principal activities are in the research and development of pharmaceutical products (Note 13).

During the year, the Group obtained significant influence of Beijing Purenhong Pharmaceutical Co., Ltd, which is a privately owned pharmaceutical product distribution company in Beijing, PRC (Note 14).

The principal activities of its other subsidiaries are disclosed in Note 33.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2008

On 1 January 2008, the Group adopted the new or revised FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The following is the new INT FRS that is relevant to the Group:

INT FRS 111 Group and Treasury Share Transactions

The adoption of the above INT FRS did not result in any substantial changes to the Group's accounting policies, or any significant impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

42

Sihuan Pharmaceutical Holdings Group Ltd

2. Significant accounting policies (continued)

2.2 Group Restructuring Exercise

- (i) Prior to the Group Restructuring Exercise, Che Fengsheng, Guo Weicheng, Zhang Jionglong and Meng Xianhui (collectively as the "Shareholders") paid-in 51%, 25%, 13% and 11% respectively of the entire share capital of Hainan Sihuan Pharmaceutical Co., Ltd.
- (ii) The Group Restructuring Exercise involved the following:
 - (a) On 6 December 2006, the issued share capital of the Company was increased from US\$12,000 to US\$7,500,000, allotted entirely to Plenty Gold Enterprises Limited and fully paid as at 6 December 2007.
 - (b) On 22 May 2006, Hainan Sihuan Pharmaceutical Co., Ltd increased its equity interest in Hainan Sihuan Pharmaceutical Information Co., Ltd from 90% to 100% by acquiring the 10% of interest from Dr Che Fengxu, the brother of Che Fengsheng at a consideration of RMB 100,000, which was fully settled in cash in May 2006. The consideration was determined based on the registered capital of Hainan Sihuan Pharmaceutical Information Co., Ltd as at 31 December 2005.
 - (c) On 19 June 2006, pursuant to a share transfer agreement, the Company agreed to acquire from Che Fengsheng, Guo Weicheng, Meng Xianhui and Zhang Jionglong, their entire registered capital interest of RMB 50,000,000 in Hainan Sihuan Pharmaceutical Co., Ltd, at an aggregate consideration of RMB 58,616,800, which was fully satisfied in cash in December 2006. The consideration was determined based on the valuation of Hainan Sihuan Pharmaceutical Co., Ltd as at 31 December 2005, as determined by an independent valuer, Hainan Haichang Accountants Co., Ltd ("海南海昌会计师事务所"). The transfer of the entire registered capital of Hainan Sihuan Pharmaceutical Co., Ltd was approved by the 海南省商务厅 (Commerce Department of the Hainan Province) on 23 June 2006. The change of shareholding was effected at the Hainan Yangpu Administration for Industry and Commerce and the new Business Licence was issued on 27 June 2006. On 27 November 2006, the 中国商务部 (Ministry of Commerce, PRC) accepted the approval of the Commerce Department of Hainan Province. The consideration was fully satisfied in cash in December 2006. Following the acquisition, Hainan Sihuan Pharmaceutical Co., Ltd became a wholly owned foreign enterprise of the Company. Accordingly, subsidiaries held directly by Hainan Sihuan Pharmaceutical Co., Ltd comprising Beijing Sihuan Pharmaceutical Co., Ltd, Hainan Sihuan Cardiocerebral Vascular Drugs Research Institute Co., Ltd, Hainan Sihuan Technical Pharmaceutical Co., Ltd and Hainan Sihuan Pharmaceutical Information Co., Ltd and Hainan Sanpu Pharmaceutical Development Co., Ltd also became part of the Group. The Company and these subsidiaries are collectively referred to as the "Group".
 - (d) On 5 September 2006, Hainan Sihuan Pharmaceutical Co., Ltd disposed its 75% interest in the registered capital of Hainan Sanpu Pharmaceutical Development Co., Ltd to a third party at a consideration of RMB 750,000 based on the registered capital of Hainan Sanpu Pharmaceutical Development Co., Ltd as at 31 December 2005. Hainan Sanpu Pharmaceutical Development Co., Ltd ceased to be a subsidiary of Hainan Sihuan Pharmaceutical Co., Ltd.
- (iii) The Group Restructuring has been accounted for using the "pooling-of-interest" method. Accordingly, the Group's consolidated financial statements for the financial year ended 31 December 2006 had been prepared as if the Group had been in existence prior to the Group Restructuring Exercise, and for which the consolidated results of the Group had been accounted for since 1 January 2003. The assets and liabilities were brought into the consolidated balance sheet at their existing carrying amounts. The pooling-of-interest method will continue to be used for the entities in existence up to the Group Restructuring Exercise. Subsequently, entities that were acquired from non common-control and third parties were accounted for using the purchase method (Note 2.5).

2. Significant accounting policies (continued)

2.3 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, when it is probable that the collectibility of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(i) Sale of goods - wholesale

The Group manufactures and sells a range of pharmaceutical products in the wholesale market. Sales of goods are recognised when the products have been delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products, and the collectibility of the related receivable is reasonably assured.

Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

2.4 Government grants

Government grants are recognised at their fair value in the income statement, where there is a reasonable assurance that the grant will be received and the Group complies with all attached conditions.

2.5 Group accounting

(i) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Acquisition of entities that are under common control have been consolidated using the pooling-of-interest method as set out in Note 2.2.

The purchase method of accounting is used to account for the acquisition of other subsidiaries from third parties, or entities that are not under common control, subsequent to the Group Restructuring Exercise in Note 2.2. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest.

Please refer to Note 2.8 for the accounting policy on goodwill on acquisition of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

2. Significant accounting policies (continued)

2.5 Group accounting (continued)

(i) Subsidiaries (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated, unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. They are measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the minorities' share of losses in a subsidiary exceeds its interests in the equity of that subsidiary.

In such cases, the excess and further losses applicable to the minority interests are attributed to the equity holders of the Company, unless the minority interests have a binding obligation to, and are able to, make good the losses.

When that subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minorities' share of losses previously absorbed by the equity holders of the Company have been recovered.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recognised in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the Group's incremental share of the carrying value of identifiable net assets of the subsidiary.

Please refer to Note 2.11 for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(iii) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, and generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in the income statement and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

2. Significant accounting policies (continued)

2.5 Group accounting (continued)

(iii) Associated companies (continued)

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising from investments in associated companies are recognised in the income statement.

2.6 Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Assets under construction are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Estimated useful lives</u>
Leasehold buildings	10 - 20 years
Plant and equipment	5 - 10 years
Office equipment	5 - 10 years
Motor vehicles	10 years

The residual values, estimated useful lives and depreciation method of the property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits, associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in the income statement when incurred.

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in the income statement.

2.7 Land lease rights

Land lease rights are up-front payments to acquire long-term interests in land. These payments are stated at cost and amortised over the period of the leases of 50 years on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

2. Significant accounting policies (continued)

2.8 Intangible assets

(i) Goodwill on acquisitions

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition. Goodwill on acquisition of subsidiaries is recognised as 'intangible assets' and carried at cost less accumulated impairment losses.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on an associated company is included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries and associated companies include the carrying amount of goodwill relating to the entity sold.

(ii) Acquired trademarks and licences

Acquired trademarks and licences have a finite useful life and are initially recognised at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 5 to 10 years, which is the shorter of their estimated useful lives and periods of contractual rights.

(iii) Research and development

(a) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

(b) Expenditure on development activities (relating to the design and testing of new or improved products) is capitalised under the category of "product development in progress" if the product or process is technically and commercially feasible, the Group has sufficient resources and the intention to complete development, and if the cost can be measured reliably. Upon the commencement of the commercial production of a product, the expenditure on development activities is transferred to "deferred development costs" and amortised on a straight-line basis over the period of its expected benefit. Development costs comprise of costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

(c) Deferred development costs that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses.

(d) Subsequent expenditure on development activities after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(e) Amortisation of deferred development costs is charged to the income statement on a straight-line basis over the estimated useful lives of 5 to 10 years.

2. Significant accounting policies (continued)

2.8 Intangible assets (continued)

(iv) Customer relationships

Customer relationships arising from business combination are initially recognised and measured at fair value. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over the respective period of the estimated useful lives of 5 to 10 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

2.9 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.10 Borrowing costs

Borrowing costs are recognised in the income statement using the effective interest method.

2.11 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in the income statement.

2.12 Impairment of non-financial assets

(i) Goodwill

Goodwill is tested for impairment annually, and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units (CGU) expected to benefit from synergies of the business combination.

An impairment loss is recognised in the income statement when the carrying amount of the CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of the CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in the income statement and is not reversed in a subsequent period.

Goodwill included in the carrying amount of an investment in an associated company is tested for impairment as part of the investment rather than separately.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

2. Significant accounting policies (continued)

2.12 Impairment of non-financial assets (continued)

- (ii) Intangible assets
 - Land lease rights
 - Property, plant and equipment
 - Investment in subsidiaries and associated companies

Intangible assets, land lease rights, property, plant and equipment and investments in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the income statement.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in the income statement.

2.13 Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" and "cash and cash equivalents" on the balance sheet.

Financial assets are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in the income statement.

The allowance for impairment loss account is reduced through the income statement in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost, had no impairment been recognised in prior periods.

2. Significant accounting policies (continued)

2.14 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

2.15 Fair value estimation of financial assets and liabilities

The fair values of current financial assets and liabilities, carried at amortised cost, to approximate their carrying amounts.

The fair values of non-current financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial liabilities.

2.16 Operating leases

Leases of office premises where substantially all risks and rewards incidental to ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in the income statement in the financial year in which they are incurred.

2.17 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.18 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associated companies, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

50

2. Significant accounting policies (continued)

2.18 Income taxes (continued)

- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the income statement, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.20 Employee compensation

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund (in Singapore) and the retirement insurance and medical insurance schemes organised by the social security bureau pursuant to the relevant provisions (in the PRC), on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

2.21 Currency translation

- (i) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

- (ii) *Transactions and balances*

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the income statement.

2.22 Segment reporting

A business segment is a distinguishable component of the Group engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.23 Cash and cash equivalents

For the purposes of presentation in the consolidated cash flow statement, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value.

2. Significant accounting policies (continued)

2.24 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital and share premium accounts.

2.25 Dividends to Company's shareholders

Dividends to Company's shareholders are recognised when the dividends are approved for payment.

3. Critical accounting estimates, assumptions and judgements

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

Deferred development costs and Product development in progress

The Group's management determines the estimated future cash flows of each pharmaceutical patent or licence for capitalisation of development costs. This estimate is based on projected product lifecycles for the pharmaceutical industry.

It could change significantly as a result of medicine innovations and competitor actions in response to industry cycles. Management will recognise impairment loss on the capitalised development costs when future cash flows are less than expectation and fall below the amount of related development costs.

If the estimated future cash flows had been 10% lower than management's estimates as at 31 December 2008, the Group would have recognised an impairment loss of the development costs of approximately RMB 3.1 million (2007: RMB 95,000) and would need to reduce the carrying value of development costs by approximately RMB 3.1 million (2007: RMB 95,000).

Goodwill impairment test

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired in accordance with accounting policy stated in Note 2.12. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of goodwill as at 31 December 2008 was RMB 49,107,000 (2007: RMB 12,130,000). Details of the estimates used to calculate the recoverable amounts are provided in Note 18.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

52

Sihuan Pharmaceutical Holdings Group Ltd

4. Revenue and other (losses)/gains - net

	GROUP	
	2008 RMB'000	2007 RMB'000
Sale of goods	510,048	286,349
Gain on sale of equity investments	-	13,252
Government grants	12,076	6,969
Processing income	3,149	3,717
Interest income	4,259	1,271
Loss on disposal of property, plant and equipment	(30)	-
Currency translation loss	(3,706)	(3,622)
Goodwill from purchase of minority interest written off	-	(264)
Intangible assets written off	(1,535)	-
Allowance for impairment of intangible assets	(22,805)	(930)
Donations	(1,737)	-
Others	2,868	-
Other (losses)/gains - net	(7,461)	20,393
	502,587	306,742

5. Expenses by nature

	GROUP	
	2008 RMB'000	2007 RMB'000
Research and development expenses	8,435	4,394
Depreciation of property, plant and equipment	8,330	5,362
Amortisation of land lease rights	942	382
Amortisation of intangible assets	17,118	8,648
Purchase of inventories	130,144	67,402
Employee compensation (Note 6)	25,872	12,734
Travelling expenses	10,472	10,394
Office expenses	21,214	20,083
Advertising expenses	4,902	2,973
Transportation expenses	4,379	2,399
Entertainment expenses	1,974	2,375
Changes in inventories	(16,442)	(15,773)
Rental expense on operating leases	1,058	77
Others	7,464	664
	225,862	122,114

6. Employee compensation

	GROUP	
	2008	2007
	RMB'000	RMB'000
Wages and salaries	22,141	11,153
Contribution to defined contribution plans	2,054	771
Staff welfare	1,677	810
	25,872	12,734

7. Finance expenses

	GROUP	
	2008	2007
	RMB'000	RMB'000
Bank charges	83	176

8. Income taxes

Up to the financial year ended 31 December 2007, a subsidiary, Hainan Sihuan Pharmaceutical Co., Ltd ("Hainan Sihuan") and its subsidiaries which are established in the "Hainan Special Economic Zone" and "Shenzhen Special Economic Zone" were subjected to income tax at a rate of 15%, while those established in other areas were subject to income tax at a rate of 33%.

With effect from 1 January 2008, Hainan Sihuan and its subsidiaries determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China ("new CIT Law"), as approved by the National People's Congress on 16 March 2007. According to the new CIT Law and the relevant regulations, the new corporate income tax rate applicable to Hainan Sihuan and its subsidiaries established in the "Hainan Special Economic Zone" and "Shenzhen Special Economic Zone" will be gradually increased to 25% over a five year period from 2008 to 2012 and the applicable tax rate for the year ended 31 December 2008 is 18%, while those established in other areas are subject to income tax rate at 25%.

Hainan Sihuan qualified as a high-tech enterprise and is entitled to a further reduction in tax rate. Consequently, Hainan Sihuan's corporate income tax for the year ended 31 December 2008 was provided at 15% (2007: 7.5%).

	GROUP	
	2008	2007
	RMB'000	RMB'000
Tax expense attributable to profit is made up of:		
Current tax	49,032	17,133
Deferred tax (Note 21)	4,589	(30)
	53,621	17,103
Over provision in prior financial year	-	(11,477)
	53,621	5,626

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

54

Sihuan Pharmaceutical Holdings Group Ltd

8. Income taxes (continued)

The tax on profit differs from the amount that would arise using the PRC income tax rate ranging from 18% to 25% (2007: 15% to 33%) due to the following:

	GROUP	
	2008 RMB'000	2007 RMB'000
Profit before income tax	287,069	184,452
Tax calculated at a tax rate applicable to Hainan Sihuan and its subsidiaries at 25% (2007: 15% to 33%)	71,767	30,428
Effects of :		
- Income not subject to tax	(983)	-
- Share of profit of an associated company not subject to tax	(2,607)	-
- Effect of tax reduction and exemption	(18,906)	(14,746)
- Expenses not deductible for tax purposes	3,452	868
- Deferred tax asset not recognised for tax losses	898	553
	53,621	17,103

The movement in current income tax liabilities is as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Beginning of financial year	14,693	19,112
Acquisition of a subsidiary	-	1,075
Income tax paid	(26,082)	(11,150)
Tax payable on profit for the current financial year	49,032	17,133
Overprovision in prior financial year	-	(11,477)
End of financial year	37,643	14,693

9. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	GROUP	
	2008	2007
Net profit attributable to equity holders of the Company (RMB'000)	237,059	179,266
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	470,000	448,918
Basic earnings per share (RMB cents per share)	50.43	39.93

There is no dilution to earnings per share for the financial years ended 31 December 2008 and 2007 because there were no potential dilutive ordinary shares existing during the respective financial years. The diluted earnings per share equal the basic earnings per share.

10. Cash and cash equivalents

	GROUP		COMPANY	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash on hand	134	149	-	-
Cash at banks	331,044	262,231	49,396	82,244
	331,178	262,380	49,396	82,244

(a) Acquisition of subsidiaries

On 7 April 2008, the Group acquired 60% equity interest of KBP Biomedical Co., Ltd ("KBP Biomedical") for a cash consideration of RMB62,500,000.

The aggregate effects of the acquisition of this subsidiary on the cashflows of the Group were as follows:

	GROUP	
	AT FAIR VALUES RMB'000	CARRYING AMOUNTS IN ACQUIREE'S BOOKS RMB'000
<u>Identifiable assets and liabilities</u>		
Cash and cash equivalents	564	564
Trade and other receivables	596	596
Property, plant and equipment (Note 15)	17,520	7,288
Land lease rights (Note 16)	10,600	4,057
Intangible assets (Note 18)	31,000	50,015
Total assets	60,280	62,520
Trade and other payables	(10,448)	(10,448)
Deferred income tax liabilities (Note 21)	(4,194)	-
Total liabilities	(14,642)	(10,448)
Identifiable net assets	45,638	52,032
Less: Minority interest	(18,255)	(20,813)
Identifiable net assets acquired	27,383	31,219
Goodwill (Note 18)	35,117	
Cash consideration paid	62,500	
Less: Cash and cash equivalents in subsidiary acquired	(564)	
Prepaid consideration	(30,000)	
Net cash outflow on acquisition	31,936	

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

56

10. Cash and cash equivalents (continued)

(a) Acquisition of subsidiaries (continued)

On 1 January 2008, the Group acquired 100% equity interest of Hainan Sihuan Pharmaceutical Sales Co., Ltd ("Hainan Sihuan Sales") for a cash consideration of RMB 3,758,000.

The aggregate effects of the acquisition of this subsidiary on the cashflows of the Group were as follows:

	GROUP	
	AT FAIR VALUES	CARRYING AMOUNTS IN ACQUIREE'S BOOKS
	RMB'000	RMB'000
<u>Identifiable assets and liabilities</u>		
Cash and cash equivalents	1,861	1,861
Trade and other receivables	37	37
Total assets	<u>1,898</u>	<u>1,898</u>
Identifiable net assets acquired	<u>1,898</u>	<u>1,898</u>
Goodwill (Note 18)	<u>1,860</u>	
Cash consideration paid	3,758	
Less: Cash and cash equivalents in subsidiary acquired	<u>(1,861)</u>	
Net cash outflow on acquisition	<u>1,897</u>	

10. Cash and cash equivalents (continued)

(a) Acquisition of subsidiaries (continued)

On 9 October 2007, the Group acquired 100% equity interest of Shenzhen Sihuan Pharmaceutical Co., Ltd (“Shenzhen Sihuan”).

The aggregate effects of acquisition of this subsidiary on the cashflows of the Group were as follows:

	GROUP	
	AT FAIR VALUES	CARRYING AMOUNTS IN ACQUIREE'S BOOKS
	RMB'000	RMB'000
<u>Identifiable assets and liabilities</u>		
Cash and cash equivalents	11,695	11,695
Trade and other receivables	5,037	5,037
Inventories	6,238	6,238
Property, plant and equipment (Note 15)	508	508
Intangible assets (Note 18)	61,000	16,114
Total assets	<u>84,478</u>	<u>39,592</u>
Trade and other payables	(25,678)	(25,678)
Deferred income tax liabilities (Note 21)	(9,561)	-
Current income tax liabilities	(1,075)	(1,075)
Total liabilities	<u>(36,314)</u>	<u>(26,753)</u>
Identifiable net assets acquired	<u>48,164</u>	<u>12,839</u>
Percentage of equity acquired	<u>100%</u>	
Identifiable net assets acquired	48,164	
Goodwill (Note 18)	11,836	
Consideration	60,000	
Less: Cash and cash equivalents in subsidiary acquired	(11,695)	
Consideration unpaid and included in trade and other payables (Note 19)	(12,000)	
Net cash outflow on acquisition	<u>36,305</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

58

Sihuan Pharmaceutical Holdings Group Ltd

10. Cash and cash equivalents (continued)

(b) Acquisition of an associated company

On 15 May 2008, the Group acquired 45% equity interest in Beijing Purenhong Pharmaceutical Co., Ltd. The aggregate effects of the acquisition on the cashflows of the Group were as follows:

	GROUP	
	AT FAIR VALUES	CARRYING AMOUNTS IN ACQUIREE'S BOOKS
	RMB'000	RMB'000
<u>Identifiable assets and liabilities</u>		
Cash and cash equivalents	42,907	42,907
Trade and other receivables	338,603	338,603
Inventories	39,104	39,104
Property, plant and equipment	14,610	8,626
Total assets	<u>435,224</u>	<u>429,240</u>
Trade and other payables	(70,000)	(70,000)
Deferred income tax liabilities	(286,102)	(286,102)
Current income tax liabilities	(9,157)	(9,157)
Total liabilities	<u>(365,259)</u>	<u>(365,259)</u>
Identifiable net assets acquired	<u>69,965</u>	<u>63,981</u>
Percentage of equity acquired	<u>45%</u>	
Identifiable net assets acquired	31,484	
Goodwill (Note 14)	<u>19,231</u>	
Consideration paid	50,715	
Less: Cash and cash equivalents in associated company	(15,000)	
Consideration included in trade and other payables	<u>(4,833)</u>	
Net cash outflow on acquisition	<u>30,882</u>	

10. Cash and cash equivalents (continued)

(c) Acquisition of minority interest

On 28 May 2007, the Company acquired 49% of equity interest in one of its subsidiaries, Hainan Sihuan Cardiocerebral Vascular Drugs Research Institute Co., Ltd ("Hainan CVD"), making it a wholly-owned subsidiary. The aggregate effect of the acquisition on the cashflows of the Group is as follows:

	GROUP RMB'000
<u>Identifiable assets and liabilities</u>	
Cash and cash equivalents	49
Trade and other receivables	134
Intangible assets	3,348
Trade and other receivables	1,372
	<u>4,903</u>
Trade and other payables	(370)
Total liabilities	<u>(370)</u>
Identifiable net assets	
Percentage of minority interests	4,533
Identifiable net assets acquired	<u>49%</u>
	<u>2,221</u>
Less: Cash paid for acquisition	<u>(2,485)</u>
Loss on acquisition – goodwill written off (Note 18)	<u>(264)</u>

11. Trade and other receivables

	GROUP		COMPANY	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade receivables	4,228	3,119	-	-
Less : Allowance for impairment of trade receivables	(138)	(138)	-	-
Trade receivables – net	4,090	2,981	-	-
Prepayment to suppliers	27,202	6,289	-	-
Deposits and other receivables	40,132	15,444	390	-
Amount due from a subsidiary (non-trade)	-	-	35,959	27,002
	71,424	24,714	36,349	27,002

The non-trade amount due from a subsidiary is unsecured, interest-free and has no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

60

12. Inventories

	GROUP	
	2008 RMB'000	2007 RMB'000
Raw materials	7,761	8,267
Work-in-progress	1,100	936
Finished goods	30,534	13,750
	39,395	22,953

The cost of inventories recognised as expense and included in "cost of sales" for the year ended 31 December 2008 was RMB 113,702,000 (31 December 2007: RMB 51,629,000).

13. Investment in subsidiaries

	COMPANY	
	2008 RMB'000	2007 RMB'000
Equity investment at cost	208,617	208,617

Details of significant subsidiaries are included in Note 33.

Acquisition of subsidiaries

- (a) On 7 April 2008, the Group acquired 60% of the issued share capital of KBP Biomedical for a cash consideration of RMB 62,500,000. The fair value of the Group's share of identifiable net assets at the date of acquisition amounted to RMB 27,383,000, resulting in goodwill on acquisition of RMB 35,117,000. Details of the identifiable net assets are discussed in Note 10. The goodwill was attributable to the knowledge and expertise of the pharmaceutical staff of KBP Biomedical.

The acquired subsidiary contributed revenue of RMB 1,280,000 and net loss of RMB 8,712,000 to the Group for the period from 7 April 2008 to 31 December 2008. The subsidiary's assets and liabilities as at 31 December 2008 were RMB 62,655,000 and RMB 25,729,000 respectively. If the acquisition had occurred on 1 January 2008, Group revenue would have been RMB 3,780,000 and total loss would have been RMB 6,150,000.

- (b) On 1 January 2008, the Group acquired 100% equity interest of Hainan Sihuan Sales for a cash consideration of RMB 3,758,000. The fair value of identifiable net assets at the date of acquisition amounted to RMB 1,898,000, resulting in goodwill on acquisition of RMB 1,860,000. Details of the identifiable net assets are discussed in Note 10. The goodwill was attributable to the synergies expected to arise after acquisition.

The effect of the acquisition of Hainan Sihuan Sales on the revenue, net profit and assets and liabilities of the Group was insignificant.

- (c) On 9 October 2007, the Group acquired 100% of the issued share capital of Shenzhen Sihuan for a cash consideration of RMB 60 million. The fair value of identifiable net assets at the date of acquisition amounted to RMB 48,164,000, resulting in goodwill on acquisition of RMB 11,836,000. Details of the identifiable net assets are discussed in Note 10. The goodwill was attributable to the distribution network of the acquired business and the synergies expected to arise after the acquisition.

13. Investment in subsidiaries (continued)

Acquisition of subsidiaries (continued)

The acquired subsidiary contributed revenue of RMB 26,385,000 and net profit of RMB 4,639,000 to the Group for the period from 9 October 2007 to 31 December 2007. The subsidiary's assets and liabilities at 31 December 2007 were RMB 40,731,000 and RMB 23,253,000 respectively. If the acquisition had occurred on 1 January 2007, Group revenue and net profit would have increased by RMB 91,026,000 and RMB 13,426,000 respectively.

- (d) On 23 November 2007, the Company acquired a new wholly-owned subsidiary, Sun Moral International (HK) Limited ("Sun Moral") in Hong Kong, PRC, with a share capital of 1 ordinary share of HK\$1 each, for a consideration of HK\$1. Sun Moral has no significant assets or liabilities. Following this, the Company's entire shareholdings in Hainan Sihuan were transferred to Sun Moral for a consideration of RMB 208,617,000, which represents the Company's cost of equity investment in Hainan Sihuan. This amount due from Sun Moral is included in the Company's investment in subsidiary for 2007 as it is not expected to be repaid by Sun Moral. As a result of the transfer, Hainan Sihuan became an indirectly owned subsidiary of the Company.

Acquisition of minority interest

On 28 May 2007, the Group acquired an additional 49% of equity interest in Hainan CVD, making it a wholly-owned subsidiary, for a cash consideration of RMB 2,485,000. The fair value of the Group's share of identifiable net assets at the date of acquisition amounted to RMB 2,221,000, resulting in goodwill on acquisition of RMB 264,000. Details of the identifiable net assets are discussed in Note 10. The goodwill was written off as management was of the view that it was insignificant.

14. Investment in an associated company

	GROUP 2008 RMB'000
Equity investment	
At 1 January 2008	-
Acquisition of an associated company	50,715
Share of profit of an associated company	10,427
At 31 December 2008	61,142

The summarised financial information of the associated company is as follows:

	2008 RMB'000
Assets	476,851
Liabilities	395,735
Revenue	1,036,068
Net profit	31,649
Percentage of equity interest	45%

On 15 May 2008, the Group acquired 45% of the issued share capital of Beijing Purenhong Pharmaceutical Co., Ltd for a cash consideration of RMB 50,715,000. Details of the identifiable net assets are provided in Note 10. Included in the Group's carrying amount of investment in an associated company is goodwill on acquisition of RMB 19,231,000, which is attributable to the workforce and the synergies expected to arise after the acquisition. Details of the associated company are included in Note 33.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

62

Sihuan Pharmaceutical Holdings Group Ltd

15. Property, plant and equipment

	LEASEHOLD BUILDINGS RMB'000	PLANT AND EQUIPMENT RMB'000	OFFICE EQUIPMENT RMB'000	MOTOR VEHICLES RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
Group						
2008						
<i>Cost</i>						
At 1 January 2008	42,862	13,490	2,229	5,907	24,386	88,874
Reclassification	-	(181)	181	-	-	-
Acquisition of a subsidiary	16,547	478	18	477	-	17,520
Additions	3,864	3,375	1,128	2,658	18,427	29,452
Transfer from construction in progress	18,136	1,451	493	-	(20,080)	-
Disposals	-	(30)	-	-	-	(30)
At 31 December 2008	81,409	18,583	4,049	9,042	22,733	135,816
<i>Accumulated Depreciation</i>						
At 1 January 2008	5,723	3,056	844	576	-	10,199
Depreciation charge	4,354	2,551	540	885	-	8,330
At 31 December 2008	10,077	5,607	1,384	1,461	-	18,529
Net book value						
At 31 December 2008	71,332	12,976	2,665	7,581	22,733	117,287
Group						
2007						
<i>Cost</i>						
At 1 January 2007	39,161	8,729	1,301	4,982	4,056	58,229
Acquisition of a subsidiary	80	-	335	93	-	508
Additions	1,150	4,761	593	1,534	22,801	30,839
Transfer from construction in progress	2,471	-	-	-	(2,471)	-
Disposals	-	-	-	(702)	-	(702)
At 31 December 2007	42,862	13,490	2,229	5,907	24,386	88,874
<i>Accumulated Depreciation</i>						
At 1 January 2007	2,990	1,357	517	373	-	5,237
Depreciation charge	2,733	1,699	327	603	-	5,362
Disposals	-	-	-	(400)	-	(400)
At 31 December 2007	5,723	3,056	844	576	-	10,199
Net book value						
At 31 December 2007	37,139	10,434	1,385	5,331	24,386	78,675

16. Land lease rights

	GROUP RMB'000
2008	
<i>Cost</i>	
At 1 January 2008	7,352
Acquisition of a subsidiary	10,600
At 31 December 2008	<u>17,952</u>
<i>Accumulated Amortisation</i>	
At 1 January 2008	776
Amortisation	942
At 31 December 2008	<u>1,718</u>
Net book value	
At 31 December 2008	<u>16,234</u>
2007	
<i>Cost</i>	
At 1 January 2007	7,352
At 31 December 2007	<u>7,352</u>
<i>Accumulated Amortisation</i>	
At 1 January 2007	394
Amortisation	382
At 31 December 2007	<u>776</u>
Net book value	
At 31 December 2007	<u>6,576</u>

Payments for land lease rights were made for the Group's land situated in the PRC for a period of 50 years from dates of grant.

17. Other non-current assets

These amounts for the Group in the prior financial year represented deposits made for proposed investments to be entered into by Hainan Sihuan with third parties, which were fulfilled in the current financial year (refer to Notes 13 and 14).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

64

18. Intangible assets

	GOODWILL RMB'000	TRADEMARK AND LICENCES RMB'000	CUSTOMER RELATIONSHIPS RMB'000	DEFERRED DEVELOPMENT COSTS RMB'000	PRODUCT DEVELOPMENT IN PROGRESS RMB'000	TOTAL RMB'000
<i>Group</i>						
2008						
<i>Cost</i>						
At 1 January 2008	12,130	1,452	28,000	63,645	112,389	217,616
Acquisition of a subsidiary	36,977	-	-	-	31,000	67,977
Additions	-	254	-	9,990	14,570	24,814
Reversal *	-	-	-	(900)	(15,290)	(16,190)
Transfers	-	-	-	125	(125)	-
Write-off	-	-	-	-	(1,535)	(1,535)
At 31 December 2008	49,107	1,706	28,000	72,860	141,009	292,682
<i>Accumulated Amortisation</i>						
At 1 January 2008	-	244	1,400	24,794	-	26,438
Amortisation	-	510	5,600	11,008	-	17,118
At 31 December 2008	-	754	7,000	35,802	-	43,556
<i>Accumulated Impairment</i>						
At 1 January 2008	-	-	-	-	930	930
Additions	-	-	-	2,800	20,005	22,805
At 31 December 2008	-	-	-	2,800	20,935	23,735
Net book value						
At 31 December 2008	49,107	952	21,000	34,258	120,074	225,391

* In 2008, the reversal of RMB 16,190,000 was due to the actual cost of intangible assets being lower than the accrued cost in previous financial years.

18. Intangible assets (continued)

	GOODWILL RMB'000	TRADEMARK AND LICENCES RMB'000	CUSTOMER RELATIONSHIPS RMB'000	DEFERRED DEVELOPMENT COSTS RMB'000	PRODUCT DEVELOPMENT IN PROGRESS RMB'000	TOTAL RMB'000
<i>Group</i>						
2007						
<i>Cost</i>						
At 1 January 2007	294	1,222	-	30,151	57,186	88,853
Acquisition of a subsidiary	11,836	-	28,000	33,000	-	72,836
Additions	264	230	-	-	55,697	56,191
Transfers	-	-	-	494	(494)	-
Write-off	(264)	-	-	-	-	(264)
At 31 December 2007	12,130	1,452	28,000	63,645	112,389	217,616
<i>Accumulated Amortisation</i>						
At 1 January 2007	-	146	-	17,644	-	17,790
Amortisation	-	98	1,400	7,150	-	8,648
At 31 December 2007	-	244	1,400	24,794	-	26,438
<i>Accumulated Impairment</i>						
At 1 January 2007	-	-	-	-	-	-
Additions	-	-	-	-	930	930
At 31 December 2007	-	-	-	-	930	930
Net book value						
At 31 December 2007	12,130	1,208	26,600	38,851	111,459	190,248

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") which are individual subsidiaries and a summary of the goodwill allocation is presented below.

	GROUP	
	2008 RMB'000	2007 RMB'000
Beijing Sihuan Pharmaceutical Co., Ltd	294	294
Shenzhen Sihuan Pharmaceutical Co., Ltd	11,836	11,836
Hainan Sihuan Pharmaceutical Sales Co., Ltd	1,860	-
KBP Biomedical Co., Ltd	35,117	-
	49,107	12,130

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

66

Sihuan Pharmaceutical Holdings Group Ltd

18. Intangible assets (continued)

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate.

The key assumptions used for value-in-use calculations for the analysis of each CGU are as follows:

	BEIJING SIHUAN	SHENZHEN SIHUAN	HAINAN SIHUAN SALES	KBP *
Gross margin (budgeted gross margin)	30%	36%	25%	N.A.
Growth rate (weighted average growth rate used to extrapolate cash flows beyond the budget period)	25%	35%	35%	50%
Discount rate (pre-tax discount rate applied to the cash flow projections)	10%	8%	8%	30%

* KBP Biomedical Co., Ltd is a research and development company and no budgeted gross margin has been set. The growth rate takes into account the potential cash flows upon the approval of intangible assets in "product development in progress" for production and sales.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The growth rates do not exceed the long-term average growth rate for the markets. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Management believes that any reasonable change to the key assumptions above of which the recoverable amounts are based would not cause the carrying amounts to exceed the recoverable amounts.

19. Trade and other payables

	GROUP		COMPANY	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade payables - third parties	4,187	8,589	-	-
Accrued expenses	9,982	5,940	7,881	4,884
Advances from customers	20,804	13,671	-	-
Value added tax payable	7,157	3,959	-	-
Amount payable for the acquisition of Shenzhen Sihuan	6,000	12,000	-	-
Amount due to directors (non-trade)	17,448	15,071	-	-
Other payables	23,973	9,596	-	-
Amount due to a subsidiary (non-trade)	-	-	10,027	10,027
	89,551	68,826	17,908	14,911

The non-trade amounts due to a subsidiary and directors are unsecured, interest-free and have no fixed repayment terms.

20. Borrowings

	GROUP	
	2008 RMB'000	2007 RMB'000
<i>Current</i>		
Loan from third party	-	12,000

The loan from third party was fully repaid during the year.

21. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Deferred income tax liabilities:		
- to be settled within one year	9,031	8,474
- to be settled after one year	9,966	1,740
	18,997	10,214

The movement in the deferred income tax account is as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Beginning of financial year	10,214	683
Acquisition of a subsidiary (Note 10)	4,194	9,561
Tax charged/(credited) to income statement (Note 8)	4,589	(30)
End of financial year	18,997	10,214

The Group has unrecognised tax losses of RMB 8,134,000 (2007: RMB 4,543,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

68

Sihuan Pharmaceutical Holdings Group Ltd

21. Deferred income taxes (continued)

The movement in the deferred tax liabilities during the financial year is as follows:

Group

Deferred income tax liabilities

	ACCELERATED TAX DEPRECIATION RMB'000
2008	
Beginning of financial year	10,214
Acquisition of a subsidiary	4,194
Charged to income statement	4,589
End of financial year	<u>18,997</u>
2007	
Beginning of financial year	683
Acquisition of a subsidiary	9,561
Credited to income statement	(30)
End of financial year	<u>10,214</u>

22. Share capital and share premium

The movements in the share capital and share premium accounts of the Group and the Company are set out below:

<u>Group and Company</u>	SHARE CAPITAL	SHARE PREMIUM	TOTAL SHARE CAPITAL AND SHARE PREMIUM
	RMB'000	RMB'000	RMB'000
2008			
Beginning and end of financial year	<u>69,262</u>	<u>182,909</u>	<u>252,171</u>
2007			
Beginning of financial year	54,413	-	54,413
Share issue	14,849	193,338	208,187
Share issue expenses	-	(10,429)	(10,429)
End of financial year	<u>69,262</u>	<u>182,909</u>	<u>252,171</u>

22. Share capital and share premium (continued)

Authorised and issued share capital

The Company was incorporated in Bermuda on 26 April 2006 under the Bermuda Companies Act as an exempt private limited company with an authorised share capital of US\$12,000, comprising 12,000 ordinary shares of par value US\$1 each.

On 6 December 2006, the Company's shareholder at that time, and before its initial public offering ("IPO"), approved the increase in the authorised share capital of the Company to US\$12,000,000 comprising 12,000,000 ordinary shares of par value US\$1 each, as well as the allotment and issue of 7,488,000 ordinary shares of par value US\$1 each credited as fully paid. At the same time, the existing nil-paid 12,000 ordinary shares were fully paid up by the Company's shareholder.

On 7 February 2007, the Company's shareholder at that time, and before its IPO, approved the sub-division of every one ordinary share of US\$1 each in the authorised and issued share capital of the Company into 50 shares. The resulting authorised share capital of the Company was US\$12,000,000 divided into 600,000,000 ordinary shares and the resulting issued share capital was US\$7,500,000 divided into 375,000,000 ordinary shares.

On 13 March 2007, the Company issued 95,000,000 ordinary shares for a total consideration of RMB 208,187,000 for cash as part of the IPO to provide funds for research and development activities, increasing the distribution network, marketing activities and production capabilities, as well as working capital. The newly issued shares rank pari passu in all respects with the previously issued shares. Upon this share issue, the resulting issued and fully paid-up share capital of the Company was US\$9,400,000 divided into 470,000,000 ordinary shares.

23. Other reserves

	GROUP RESERVE FUND RMB'000
2008	
Balance at 1 January 2008	45,626
Transfer from retained earning	29,629
Balance at 31 December 2008	75,255
2007	
Balance at 1 January 2007	24,775
Transfer from retained earning	20,851
Balance at 31 December 2007	45,626

Reserve Fund

One of the subsidiaries, Hainan Sihuan Pharmaceutical Co., Ltd was incorporated as a domestic limited liability company. According to the Company Law of the PRC and the Articles of Association of this subsidiary, it was required to provide the following statutory reserves which are appropriated from the net profit as reported in the PRC statutory financial statements:

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

70

Sihuan Pharmaceutical Holdings Group Ltd

23. Other reserves (continued)

Reserve Fund (continued)

Hainan Sihuan Pharmaceutical Co., Ltd became a wholly owned foreign enterprise on 27 June 2007. In accordance with the "Law of the PRC on Enterprises Operated Exclusively with Foreign Capital" and Hainan Sihuan Pharmaceutical Co., Ltd revised Articles of Association, appropriations from net profit, after offsetting prior years' accumulated losses (if any), should be made to the Reserve Fund and the staff and workers' bonus and welfare fund, before profit distributions to the investors. The appropriation for the reserve fund must be no less than 10% of net profit. However, this is optional when the accumulated appropriation exceeds 50% of the registered capital. The percentages to be appropriated for the Reserve Fund and the staff and workers' bonus and welfare fund are determined by Hainan Sihuan Pharmaceutical Co., Ltd. The staff and workers' bonus and welfare fund, due to their nature, is classified as other liabilities in the balance sheet and correspondingly recognised as staff cost in the income statement.

For appropriations to the statutory common reserve fund and statutory welfare fund, the profits for the period up to 26 June 2007 and those before are appropriated in accordance with the legislations and the Company's Articles of Association applicable to a domestic limited liability company and a wholly owned foreign enterprise respectively. Appropriations previously made to statutory common reserve fund and statutory welfare fund were transferred to the Reserve Fund on 27 June 2007. 10% of the net profit as reported in the PRC statutory financial statements for the year ended 31 December 2008 was appropriated to the Reserve Fund (2007: 10%). The Reserve Fund is not available for distribution to owners (except on liquidation of this subsidiary).

24. Dividends

	GROUP	
	2008	2007
	RMB'000	RMB'000
Ordinary dividends paid		
Final exempt dividend paid in respect of the previous financial year of RMB 13.0 cents (2007: nil) per share	60,656	-

The Directors recommended a final dividend of RMB 15.3 cents per share, tax not applicable, amounting to RMB 71.9 million, in respect of the financial year ended 31 December 2008 for approval by shareholders in the next Annual General Meeting to be convened on 27 April 2009. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2009.

25. Commitments

(a) Operating lease commitments – where the Group is a lessee

The future minimum lease payable under non-cancellable operating leases in relation to office premises contracted for at the balance sheet date but not recognised as liabilities, are analysed as follows:

	GROUP		COMPANY	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Not later than one year	2,573	991	554	444
Later than one year but not later than five years	826	138	570	110
	3,399	1,129	1,124	554

These leases have varying terms, escalation clauses and renewal rights.

(b) Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements, are analysed as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Intangible assets - Product development in progress	31,034	59,662
	31,034	59,662

26. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse effects from the unpredictability of financial markets on the Group's financial performance. The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group.

(a) *Currency risk*

The Group's operations are in the PRC and the entities transact mostly in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. As at the end of the financial year, the main foreign currency denominated balance of the Group is Singapore Dollar cash and cash equivalents of approximately RMB 48.5 million (2007: RMB 82.2 million). In the opinion of the directors, the Group does not have any significant currency exposure.

(b) *Price risk*

The Group is not exposed to any significant equity or commodity market price risk as the Group does not hold any available-for-sale or fair value through profit and loss investments.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

72

26. Financial risk management (continued)

(c) Interest rate risk

The Group has no significant exposure to interest rate risk. The financial assets and liabilities of the Group are non-interest bearing except for bank and cash balances for the Group of RMB 331,044,000 (2007: RMB 262,231,000) and for the Company of RMB 49,396,000 (2007: RMB 82,244,000).

(d) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has no significant concentration of credit risk. Credit risk arises mainly from cash and cash equivalents, and trade and other receivables.

For cash and cash equivalents, the Group manages the credit risk of cash in the PRC by placing the bank deposits in large PRC state-controlled banks without significant credit risk. The Company manages the credit risk of cash outside the PRC by placing the bank deposits with financial institutions with high credit quality.

For trade and other receivables, the credit quality of individual customers is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. The directors are of the opinion that the risk of default by counterparties is low.

As the Group and Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amounts of cash and cash equivalents and trade and other receivables presented on the balance sheet.

The Group's key management analyses the credit risk for trade and other receivables based on respective individual customers of the whole Group.

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits in large PRC state-controlled banks without significant credit risk. Trade receivables that are neither past due nor impaired are substantially companies with good collection track record with the Group.

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Past due 0 to 3 months	3,869	2,795
Past due 3 to 6 months	35	68
Past due over 6 months	186	118
	4,090	2,981

The Company has no trade receivables.

26. Financial risk management (continued)

(d) Credit risk (continued)

(ii) Financial assets that are past due and/or impaired (continued)

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Gross amount	138	138
Less: Allowance for impairment	(138)	(138)
	-	-
Beginning of financial year	(138)	(111)
Allowance made	-	(27)
End of financial year	(138)	(138)

The individually impaired trade receivables mainly relate to customers of the Group, which are pharmaceutical wholesalers, who are in unexpectedly difficult financial and economic situations.

(e) Liquidity risk

The Group applies prudent liquidity management by maintaining sufficient cash to meet its operational requirements. The directors are of the opinion that the Group maintains an adequate liquidity reserve.

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows.

	LESS THAN 1 YEAR RMB'000
<u>Group</u>	
At 31 December 2008	
Trade and other payables	89,551
	89,551
At 31 December 2007	
Trade and other payables	68,826
Borrowings	12,000
	80,826
<u>Company</u>	
At 31 December 2008	
Trade and other payables	17,908
	17,908
At 31 December 2007	
Trade and other payables	14,911
	14,911

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

74

26. Financial risk management (continued)

(f) Capital risk

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with industry practice, the Group monitors capital on the basis of the consolidated Group gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain an operation with no capital risk. The gearing ratios at 31 December 2008 and 2007 were as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Total borrowings	-	12,000
Less: cash and cash equivalents	(331,178)	(262,380)
Net cash	(331,178)	(250,380)
Net debt	-	-
Total equity	717,538	524,813
Gearing ratio	NM	NM

NM: Not meaningful as there is no net debt.

27. Related party transactions

Besides the information disclosed elsewhere in the financial statement, there are no other transactions that took place between the Group and its related parties.

Key management's remuneration

The key management's remuneration include fees, salary, bonus, commission and other short-term employee benefits (including benefits-in-kind) computed based on the cost incurred by the Group, and where the Group did not incur any costs, the value of the benefit. The key management's remuneration is as follows:

	GROUP	
	2008 RMB'000	2007 RMB'000
Salaries and other short-term employee benefits		
- Directors	10,418	5,010

28. Segment information

(i) Business segment

The Group is engaged in only one business segment, the manufacture and sale of pharmaceutical products.

(ii) Geographical segment

All assets and operations of the Group are located in the PRC. No geographical segment results are presented.

29. Immediate and ultimate holding company

The Company's immediate and ultimate holding company is Plenty Gold Enterprises Limited, incorporated in British Virgin Islands.

30. Events occurring after the balance sheet date

On 25 March 2009, the Group entered into an agreement with a third party to dispose of its 45% equity interest in Beijing Purenhong Pharmaceutical Co., Ltd ("Beijing Purenhong") for a cash consideration of approximately RMB 101.7 million. The consideration for the sale was arrived at on a "willing buyer, willing seller" basis between the Group and the purchaser and was agreed on after arm's length negotiations. The gain on sale will be determined upon the completion of the disposal.

31. New or revised accounting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

a) FRS 1(R) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The revised standard requires:

- All changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income;
- Components of comprehensive income not to be included in statement of changes in equity;
- Items of income and expenses and components of other comprehensive income to be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of comprehensive income);
- Presentation of restated balance sheet as at the beginning of the comparative period when entities make restatements or reclassifications of comparative information.

The revisions also include changes in the titles of some of the financial statements primary statements.

The Group will apply the revised standard from 1 January 2009 and provide comparative information that conforms to the requirements of the revised standard. The Group does not expect any significant changes to the presentation of financial statements from the application of this standard.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

76

Sihuan Pharmaceutical Holdings Group Ltd

31. New or revised accounting standards and interpretations (continued)

(b) FRS 108 Operating Segments (effective for annual periods beginning on or after 1 January 2009)

FRS 108 supersedes FRS 14 Segment Reporting and requires the Group to report the financial performance of its operating segments based on the information used internally by management for evaluating segment performance and deciding on allocation of resources. Such information may be different from the information included in the financial statements, and the basis of its preparation and reconciliation to the amounts recognised in the financial statements shall be disclosed.

The Group will apply FRS 108 from 1 January 2009 and provide comparative information that conforms to the requirements of FRS 108. The Group expects new operating segments to be different from business segments and expects more information to be disclosed under FRS108.

(c) Revised FRS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)

The revised standard removes the option to recognise immediately as an expense borrowing costs that are attributable to qualifying assets, except for those borrowing costs on qualifying assets that are measured at fair value or inventories that are manufactured or produced in large quantities on a repetitive basis.

The Group will apply the revised FRS 23 from 1 January 2009 for qualifying assets, if any.

32. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Company on 31 March 2009.

33. Listing of significant companies in the Group

NAME OF COMPANIES	PRINCIPAL ACTIVITIES	COUNTRY OF BUSINESS/ INCORPORATION	EQUITY HOLDING	
			2008 %	2007 %
Significant subsidiaries held indirectly by the Company				
Sun Bright International Co. Ltd *	Investment holding	Hong Kong	100	100
Hainan Sihuan Pharmaceutical Co., Ltd +	Marketing of pharmaceutical products	People's Republic of China	100	100
Beijing Sihuan Pharmaceutical Co., Ltd +	Manufacturing of pharmaceutical products	People's Republic of China	100	100
Hainan Sihuan Pharmaceutical Information Co., Ltd +	Information support services	People's Republic of China	100	100

33. Listing of significant companies in the Group (continued)

NAME OF COMPANIES	PRINCIPAL ACTIVITIES	COUNTRY OF BUSINESS/ INCORPORATION	EQUITY HOLDING	
			2008 %	2007 %
Significant subsidiaries held indirectly by the Company (continued)				
Hainan Sihuan Technical Pharmaceutical Co., Ltd +	Cooperation with other research companies	People's Republic of China	100	100
Hainan Sihuan Cardiocerebral Vascular Drugs Research Institute Co., Ltd +	Provision of research and development services	People's Republic of China	100	51
Shenzhen Sihuan Pharmaceutical Co., Ltd +	Marketing of pharmaceutical products	People's Republic of China	100	-
KBP Biomedical Co., Ltd +	Research and development of pharmaceutical Products	People's Republic of China	60	-
Hainan Sihuan Pharmaceutical Sales Co., Ltd +	Trading and selling of pharmaceutical products	People's Republic of China	100	-
Significant associated companies held indirectly by the Company				
Beijing Purenhong Pharmaceutical Co., Ltd ^	Distribution of pharmaceutical products	People's Republic of China	45	-

* Not required to be audited under the laws of the country of incorporation.

+ Hainan Sihuan Pharmaceutical Co., Ltd and its subsidiaries are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company Shenzhen Branch.

^ Audited by Continental CPA, People's Republic of China.

STATISTICS SHAREHOLDINGS

As at 13 March 2009

78

Sihuan Pharmaceutical Holdings Group Ltd

DISTRIBUTION OF SHAREHOLDINGS BY SIZE OF SHAREHOLDINGS AS AT 13 MARCH 2009

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	5	0.40	1,000	0.00
1,000 - 10,000	831	67.40	4,792,000	1.02
10,001 - 1,000,000	381	30.90	24,730,000	5.26
1,000,001 and above	16	1.30	440,477,000	93.72
Total	1,233	100	470,000,000	100

LIST OF 20 LARGEST REGISTERED SHAREHOLDERS AS AT 13 MARCH 2009

NO.	NAME	NO. OF SHARES	%
1	PLENTY GOLD ENTERPRISE LIMITED	324,000,000	68.94
2	HSBC (SINGAPORE) NOMINEES PTE LTD	38,148,000	8.12
3	CITIBANK NOMINEES SINGAPORE PTE LTD	16,198,000	3.45
4	DBS NOMINEES PTE LTD	11,797,000	2.51
5	GUO WEICHENG	9,792,000	2.08
6	CHE FENGSHENG	9,235,000	1.96
7	PHILLIP SECURITIES PTE LTD	6,598,000	1.40
8	MENG XIANHUI	6,500,000	1.38
9	KIM ENG SECURITIES PTE. LTD.	4,876,000	1.04
10	UOB KAY HIAN PTE LTD	3,310,000	0.70
11	KO WOON HONG	2,768,000	0.59
12	BOON SUAN LEE	2,199,000	0.47
13	RAFFLES NOMINEES PTE LTD	1,599,000	0.34
14	ONG KIM HUAT FELIX	1,227,000	0.26
15	IPC CORPORATION LTD	1,200,000	0.26
16	DAIWA SECURITIES SMBC SINGAPORE PTE LTD	1,030,000	0.22
17	TEO KOK KHENG	1,000,000	0.21
18	VISION CAPITAL PRIVATE LIMITED	1,000,000	0.21
19	CIMB-GK SECURITIES PTE. LTD.	997,000	0.21
20	CHAN SOH HAR	925,000	0.20
Total:		444,399,000	94.55

SUBSTANTIAL SHAREHOLDERS

NAME	DIRECT INTERESTS	NO. OF SHARES DEEMED INTERESTS	%
Chartered Asset Management Pte. Ltd. *	-	33,262,000	7.08
Dr Che Fengsheng #	10,265,000	324,000,000	71.12
Dr Guo Weicheng #	9,435,000	324,000,000	70.94
Plenty Gold Enterprises Limited	324,000,000	-	68.94

* 33,262,000 shares held through nominees.

Deemed interest of Dr Che Fengsheng and Dr Guo Weicheng arising from their direct interests in Plenty Gold Enterprises Limited.

SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 13 March 2009, 23.44% of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual is complied with.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Amber Room, Level 3, Grand Mercure Roxy Hotel, 50 East Coast Road Roxy Square (via Marine Parade Rd), Singapore 428769 on Monday, 27 April 2009 at 10.00 a.m. to transact the following business:

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2008 and the Reports of Directors and Auditors thereon. **Resolution 1**
2. To declare Final Dividend of RMB 15.3 cents per ordinary share (tax not applicable) for the financial year ended 31 December 2008. **Resolution 2**
3. To approve the Directors' Fees of S\$100,000/- for the financial year ending 31 December 2009 to be paid on a quarterly basis. **Resolution 3**
4. To re-elect the following Directors retiring pursuant to the Bye-Laws of the Company:
 - (a) Dr Guo Weicheng [Bye-Law 104] **Resolution 4**
 - (b) Mr Meng Xianhui [Bye-Law 104] **Resolution 5**
 - (c) Mr Huang Zhenhua [Bye-Law 107(A)] **Resolution 6**
5. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 7**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without modifications:

6 (A). **AUTHORITY TO ALLOT AND ISSUE SHARES** **Resolution 8**

"That in accordance with Rule 806 of the Listing Manual ("Listing Manual") of the Singapore Exchange Securities Trading Limited ("SGX-ST"), approval be and is given to the Directors to issue:

- (i) shares in the Company (whether by way of bonus, rights or otherwise); or
- (ii) convertibles securities; or
- (iii) additional convertible securities arising from adjustments made to the number of convertible securities previously issued in the events of rights, bonus or capitalization issues; or
- (iv) shares arising from the conversion of convertible securities,

at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit provided that:

- (a) the aggregate number of shares and convertible securities that may be issued shall not be more than 50% of the issued share capital (excluding treasury shares) of the Company (as calculated in accordance with sub-paragraph (c) below), or such other limit as may be prescribed by the SGX-ST as at the date the general mandate is passed;

- (b) the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not be more than 20% of the issued share capital (excluding treasury shares) of the Company (as calculated in accordance with sub-paragraph (c) below), or such other limit as may be prescribed by the SGX-ST as at the date the general mandate is passed;
- (c) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraphs (a) and (b) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) of the Company at the time this Resolution is passed, after adjusting for:
 - (i) new shares arising from the conversion or exercise of any convertible securities;
 - (ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with the provisions of the Listing Manual of the SGX-ST; and
 - (iii) any subsequent bonus issue, consolidation or subdivision of shares;
- (d) the 50% limit in sub-paragraph (a) above may be increased to 100% for the Company to undertake pro rata renounceable rights issues;
- (e) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws of the Company; and

unless earlier revoked or varied by the Company in general meeting, such authority shall continue in force until the next Annual General Meeting or the date by which the next Annual General Meeting is required by law or by the Bye-Laws of the Company to be held, whichever is earlier. "

[See Explanatory Note (i)]

6 (B). **AUTHORITY TO ALLOT AND ISSUE SHARES PRICED AT A DISCOUNT OF UP TO 20% FOR PLACEMENT EXERCISE**

Resolution 9

"That subject to and pursuant to the share issue mandate in Resolution 8 being obtained, authority be and is hereby given to the Directors to issue new shares other than on a pro rata basis to shareholders of the Company at an issue price per new share which shall be determined by the Directors in their absolute discretion provided that such price shall not represent more than a 20% discount for new shares to the weighted average price per share determined in accordance with the requirements of the SGX-ST."

[See Explanatory Note (ii)]

7. To transact any other business which may properly be transacted at an Annual General Meeting.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATES

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 6 May 2009, for the purpose of determining members' entitlements to the Final Dividend of RMB 15.3 cents per ordinary share (tax not applicable) for the financial year ended 31 December 2008 to be proposed at the Annual General Meeting of the Company to be held on Monday, 27 April 2009.

Duly completed registrable transfers received by the Company's Share Transfer Agent in Singapore, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.) of 8 Cross Street #11-00, PWC Building, Singapore 048424, up to 5.00 p.m. on 5 May 2009 will be registered to determine Members' entitlement to such dividend.

Members whose securities accounts with The Central Depository (Pte) Limited are credited with shares in the Company as at 5.00 p.m. on 5 May 2009 will be entitled to such dividend.

The payment of such dividend, if approved by members at the Company's Annual General Meeting to be held on Monday, 27 April 2009, will be paid on 18 May 2009.

Dated this 3rd day of April 2009

By Order of the Board

Lim Aik Kun
Company Secretary

Explanatory Notes:

- (i) The Ordinary Resolution 8, if passed, will empower the Directors from the date of this Meeting until the conclusion of the next Annual General Meeting, or the date by which the next Annual General Meeting of the Company is required by law or by the Bye-Laws of the Company to be held, or when revoked or varied by the Company in general meeting, whichever is earlier, to allot and issue further shares in the Company. The maximum number of shares which the Directors may issue under this resolution shall not exceed the quantum as set out in the resolution. The above 50% limit may be increased to 100% for the Company to undertake pro rata renounceable rights issues, which is one of the new measures introduced by the Singapore Exchange Limited, in consultation with the Monetary Authority of Singapore, which took effect on 20 February 2009 to accelerate and facilitate listed issuers' fund raising efforts and will be in effect until 31 December 2010.
- (ii) The Ordinary Resolution 9, if passed, will empower the Directors to issue new shares other than on a pro rata basis to shareholders of the Company at a discount exceeding 10% but not more than 20% to the weighted average price per share determined in accordance with the requirements of the SGX-ST. This is also one of the new measures introduced by the Singapore Exchange Limited, in consultation with the Monetary Authority of Singapore, which took effect on 20 February 2009 to accelerate and facilitate listed issuers' fund raising efforts and will be in effect until 31 December 2010.

NOTES:

1. If a Member being a Depositor whose name appears in the Depository Register (as defined in Bye-laws of the Company) wishes to attend and vote at the Annual General Meeting (the "Meeting"), then he/she/it should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.) at 8 Cross Street #11-00, PWC Building, Singapore 048424, at least forty-eight (48) hours before the time of the Annual General Meeting.
2. If a Depositor wishes to appoint a proxy/proxies, then the Proxy Form must be signed and deposited at the office of the Singapore Share Transfer Agent, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.) at 8 Cross Street #11-00, PWC Building, Singapore 048424, at least forty-eight (48) hours before the time of the Annual General Meeting.

This page is intentionally left blank

SIHUAN PHARMACEUTICAL HOLDINGS GROUP LTD.

[Company Registration No. 38317]
[Incorporated in Bermuda]

PROXY FORM

*I/We _____ (Name)

of _____
being *a member/members of SIHUAN PHARMACEUTICAL HOLDINGS GROUP LTD. (the "Company"), hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of shareholdings to be represented by proxy (%)

*and/or

--	--	--	--

as *my/our *proxy/proxies to vote for *me/us on *my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of the Company to be held at Amber Room, Level 3, Grand Mercure Roxy Hotel, 50 East Coast Road Roxy Square (via Marine Parade Rd), Singapore 428769 on Monday, 27 April 2009 at 10.00 a.m. and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the Annual General Meeting as indicated with an "X" in the spaces provided hereunder. If no specified directions as to voting are given, the *proxy/proxies will vote or abstain from voting at *his/their discretion, as *he/they will on any matter arising at the Meeting.

No.	Ordinary Resolutions	For	Against
1.	To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2008 and the Reports of Directors and Auditors thereon.		
2.	To declare Final Dividend of RMB 15.3 cents per ordinary share (tax not applicable) for the financial year ended 31 December 2008.		
3.	To approve the Directors' Fees of S\$100,000/- for the financial year ending 31 December 2009 to be paid on a quarterly basis.		
4.	To re-elect Dr Guo Weicheng as Director pursuant to Bye-Law 104.		
5.	To re-elect Mr Meng Xianhui as Director pursuant to Bye-Law 104.		
6.	To re-elect Mr Huang Zhenhua as Director pursuant to Bye-Law 107(A).		
7.	To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to fix their remuneration.		
8.	To authorise Directors to allot and issue shares and convertible securities pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited.		
9.	To authorise Directors to allot and issue shares (other than on a pro rata basis) with a maximum discount of 20%.		

Dated this _____ day of _____ 2009

Total Number of Shares Held

Signature of Member(s) or
Common Seal of Corporate Shareholder

* Delete as appropriate.

Notes:-

1. A member should insert the total number of shares held by him. If the member has shares entered against his name in the Depository Register (as defined in the Bye-laws of the Company), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies will be deemed to relate to all the shares held by the member.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote instead of him.
3. A proxy need not be a member of the Company.
4. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as percentage of the whole) to be represented by each proxy.
5. The instrument appointing a proxy or proxies must be deposited at the office of the Company's Singapore Share Transfer Agent, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.) at 8 Cross Street #11-00 PWC Building, Singapore 048424 not less than forty-eight (48) hours before the time appointed for the Annual General Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.
7. Where an instrument appointing a proxy is signed on behalf of the appointor by the attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which, the instrument may be treated as invalid.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at forty-eight (48) hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

SIHUAN PHARMACEUTICAL HOLDINGS GROUP LTD.

AFFIX
STAMP

The Company Secretary
SIHUAN PHARMACEUTICAL HOLDINGS GROUP LTD.
8 Cross Street #11-00
PWC Building
Singapore 048424

Written by Oaktree Advisers Pte Ltd,
Your Investor Relations Partner

A **MET/FUSION** DESIGN



**SIHUAN PHARMACEUTICAL
HOLDINGS GROUP LTD**

31st Floor, Xinda Commercial Plaza
No. 48 Guomao Avenue, Haikou City
570125, Hainan Province
People's Republic Of China

Tel: (86) 898 6855 6923

Fax: (86) 898 6854 2333

Email: sihuan@listedcompany.com

www.sihuanpharm.com
www.sihuanpharm.com.cn