

ASIAPHARM GROUP LTD.

Unaudited First Quarter Financial Statement Announcement for the Period Ended 31/3/2008

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

- (a) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group profit and loss statement				
	1QFY08	1QFY07	Changes	
	31.3.2008	31.3.2007	RMB'000	%
	RMB'000	RMB'000		
Revenue	124,556	106,752	17,804	16.7%
Cost of sales	(15,624)	(20,385)	4,761	-23.4%
Gross profit	108,932	86,367	22,566	26.1%
Gross margin	87.46%	80.90%	N.A	6.55%
Other income	4,406	496	3,910	788.3%
Selling and distribution costs	(57,930)	(38,557)	(19,373)	50.2%
Administrative expenses	(26,082)	(19,845)	(6,237)	31.4%
Other expenses	(7,194)	(3,273)	(3,921)	119.8%
Profit from operating activities	22,133	25,188	(3,055)	-12.1%
Finance revenue	1,034	1,404	(370)	-26.4%
Finance costs	(3,996)	(2,448)	(1,548)	63.2%
Share of profit of associates	3,059	-	3,059	N.M.
Profit before income tax	22,230	24,144	(1,914)	-7.9%
Taxation	(2,210)	(2,687)	477	-17.8%
Profit for the period	20,020	21,457	(1,437)	-6.7%
Attributable to:				
Equity holders of the parent	20,020	21,763	(1,743)	-8.0%
Minority interests	-	(306)	306	N.M.
	20,020	21,457	(1,437)	-6.7%

Notes to income statements

a) Cost of sales		
Cost of sales comprises cost of materials, direct labour and manufacturing overheads.		
b) Other income		
	For the 3 months ended	
	31.3.2008	31.3.2007
	RMB'000	RMB'000
Government grants	1,221	-
Write-back of long aged payables	2,918	-
Net foreign exchange gain	-	136
Others	267	360
	4,406	496
c) Other expenses		
Research and development costs	(6,395)	(3,194)
Loss on disposal of property, plant and equipment	-	(44)
Donations	(250)	-
Net foreign exchange loss	(400)	-
Others	(148)	-
	(7,193)	(3,238)
d) Finance revenue		
Bank interest income	1,034	1,404
e) Finance costs		
Interest on bank loans	(3,752)	(1,970)
Bank charges and others	(245)	(478)
	(3,997)	(2,448)
f) Profit from operating activities		
Profit from operating activities is arrived at after charging:		
Amortisation of intangible assets	(5,690)	(6,458)
Amortisation of land use rights	(71)	(71)
Amortisation of deferred expenditure	(125)	(125)
Depreciation of property, plant and equipment	(4,246)	(3,999)
Loss on disposal of property, plant and equipment	-	(44)
Operating lease expenses	(447)	(333)
Write-down of inventories to net realisable value	-	(9)
Impairment of trade receivables	-	(375)

g) Taxation

Under the laws of Bermuda, no withholding tax on dividends or other distributions, nor any tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations. Accordingly, the Company and its subsidiary, AsiaPharm Investments, were not subject to tax.

Pursuant to the International Business Companies Act, 1984, ("IBC Act") of the BVI, international business companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax, and all forms of withholding tax. Accordingly, Onsuccess and Solid Success is not subject to tax.

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Kang Hai Pharmaceutical Technology Development Limited and Apex Group Holdings Ltd are subject to profit tax on 17.5% of their taxable income.

Pursuant to the relevant tax law of Singapore, Asiapharm Biotech Pte Ltd ("ABPL", formerly known as Wearnes Biotech & Medicals (1998) Pte Ltd) and SmartMedicine Pte Ltd are subject to income tax of 20% of their taxable income. With effect from 2008, the applicable tax rate will be 18%. In accordance with the Income Tax Law of the PRC, the profits of the following subsidiaries in Mainland China are taxed at the following tax rates:

	Notes	2007 Rmb'000	2006 Rmb'000
Shandong Luye	(a)	7.5%	7.5%
Luye Trading	(b)	33%	33%
Shandong Luye Natural Drug Research and Development Co., Ltd. ("Luye R&D")	(c)	27%	33%
Jiuzhoutong	(d)	33%	33%
Nanjing Kanghai	(e)	13.78%	13.78%
Nanjing Sike	(f)	7.5%	-

(a) Shandong Luye was previously subject to a corporate income tax rate of 24% on its taxable income. This tax rate applies to enterprises with foreign investment and foreign enterprises engaged in production and established in coastal economic open zones. On 17 June 2005, Shandong Luye obtained approval from the relevant tax authorities as a qualified foreign-owned manufacturing enterprise engaging in technology-intensive and knowledge-intensive projects ("Double-Intensive Enterprise"). Pursuant thereto, Shandong Luye, as a Double-Intensive Enterprise, is subject to a corporate income tax rate of 15% with effect from 1 January 2005.

In accordance with the relevant tax laws in the PRC, Shandong Luye is exempted from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. Shandong Luye is eligible to pay a reduced tax rate of 7.5% until 31 December 2007.

(b) Luye Trading is subject to a corporate income tax rate of 33% this year.

- (c) Luye R&D is subject to a corporate income tax rate of 27% (2006:33%). With effect from 1 July 2006, Luye R&D is taxed on a deemed income basis determined at 10% of its total revenue. The determination of the deemed revenue and the income computation will be assessed annually by the relevant tax authorities.
- (d) Jiuzhoutong is subject to a corporate income tax rate of 33% this year. Jiuzhoutong had no taxable profits, therefore no provision for income tax has been made for the year.
- (e) Nanjing Kanghai, being an advanced technology enterprise located in the Nanjing Hi-Technology Development Zone, is subject to a preferential corporate income tax rate of 15%. On 11 May 2004, Nanjing Kanghai was restructured as a result of merger with Nanjing Zhengzhong Biotech Co., Ltd. ("Nanjing Zhengzhong").

Before the merger, in accordance with the relevant tax laws in the PRC, Nanjing Kanghai was entitled tax holidays of exemption from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and 50% tax reduction for the succeeding three years. The tax holidays commenced from 2004. Nanjing Zhengzhong, being a domestic company established in the PRC, was not entitled to any tax holidays. After the merger, Nanjing Kanghai obtained the approvals from relevant tax authorities to enjoy a preferential corporate income tax rate of 13.78%. The rate is subject to annual assessment of relevant tax authorities.

- (f) Nanjing Sike, being an advanced technology enterprise located in the Nanjing Hi-Technology Development Zone, is subject to a preferential corporate income tax rate of 15%. In accordance with the relevant tax laws in the PRC, Nanjing Sike is exempted from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In 2007, Nanjing Sike is in the first year of the 50% tax reduction period and thus is eligible to pay at a reduced tax rate of 7.5%.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

h) Comparative figures

The Group has reclassified certain financial figures to be consistent with our FY2007 audited financial statements. We have adjusted COGS and administrative expenses (amortisation) by RMB 1.7 million and RMB 4.0 million for 1QFY2007, respectively, arising from the fair value adjustments of SSL Group concluded for FY2007. We have adjusted RMB 4.0 million to administrative expenses for 1QFY2008 for the increase in amortisation arising from the above fair value adjustments.

1(b)(i) A balance sheet (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group 31.3.2008	Group 31.12.2007	Company 31.3.2008	Company 31.12.2007
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	145,888	147,127	-	-
Construction in progress	11,199	2,179	-	-
Investments in subsidiaries	-	-	11,262	11,262
Investments in associates	115,443	112,384	111,274	111,274
Intangible assets	203,331	208,753	-	-
Land use rights	13,335	13,345	-	-
Available-for-sale investments	4,695	7,176	-	-
Long term deferred expenditure	3,167	3,292	-	-
Goodwill	168,726	168,726	-	-
Deferred income tax assets	5,052	5,052	-	-
	670,836	668,034	122,536	122,536
Current assets				
Inventories	61,155	42,250	-	-
Contracts for services	-	9,491	-	-
Trade and notes receivables	233,249	231,185	-	-
Prepayments, deposits and other receivables	13,521	15,313	1,037	69,404
Cash and cash equivalents	124,416	142,886	5,308	13,315
Pledged short-term deposits	20,480	20,480	-	-
Due from the holding company	917	917	1	1
Due from related parties	4,452	2,754	-	-
Due from subsidiaries	-	-	523,114	472,624
	458,190	465,276	529,460	555,344
TOTAL ASSETS	1,129,026	1,133,310	651,996	677,880
EQUITY AND LIABILITIES				
Capital and reserves				
Issued Capital	81,180	81,180	81,180	81,180
Share Premium	428,005	428,005	427,980	427,980
Treasury shares	-	(2,011)	-	(2,011)
Reserves/(losses)	275,895	254,354	(23,975)	(2,605)
Proposed dividend	14,398	14,398	14,398	14,398
	799,478	775,926	499,583	518,942
Minority interests	622	622	-	-
TOTAL EQUITY	800,100	776,548	499,583	518,942
Non-current liabilities				
Interest-bearing loans and borrowings	112,880	115,781	112,880	115,781
Government grants	3,266	1,027	-	-
Deferred tax liabilities	25,799	25,799	-	-
	141,945	142,607	112,880.00	115,781
Current liabilities				
Interest-bearing loans and borrowings	127,375	137,278	20,530	24,747
Trade and notes payables	12,374	8,253	-	-
Accrued liabilities and other payables	36,358	63,134	12,577	13,161
Income tax payable	2,132	1,038	3	6
Due to the holding company	5,510	2,839	1,376	1,174
Due to related parties	3,232	1,613	1,777	709
Due to subsidiaries	-	-	3,270	3,360
	186,981	214,155	39,533	43,157
TOTAL LIABILITIES	328,926	356,762	152,413	158,938
TOTAL EQUITY AND LIABILITIES	1,129,026	1,133,310	651,996	677,880

Notes to balance sheet:

1. Long-term deferred expenditure refers to the Group's investment in a joint venture with Yantai University to set up Yantai Pharmaceutical College. This deferred expenditure is amortised over a period of ten years on a straight line basis.
2. Goodwill arising from the acquisition of Beijing WBL Peking University Biotech Co., Ltd ("WPU") amounted to RMB 37.0 million was included in investments in associates. We are in the process of doing the purchase price allocation exercise for WPU and the actual goodwill amount may differ.
3. Acquisition costs of WPU and WBM
As announced on 23 November 2007, the Group acquired 43% of WPU and 100% of ABPL. The Group is in the process of engaging an independent professional valuer to provide an appraisal report on the fair value of the net assets acquired which primarily include intangible assets such as the New Medicine Certificate, patents and trademark. The allocation of the purchase consideration will be made to these assets when the appraisal report has been finalised.

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

(In RMB'000)

As at 31.3.2008		As at 31.12.2007	
Secured	Unsecured	Secured	Unsecured
51,375	76,000	15,478	122,000

Amount repayable after one year

(In RMB'000)

As at 31.3.2008		As at 31.12.2007	
Secured	Unsecured	Secured	Unsecured
112,880	-	116,013	-

Details of any collateral

As of 31 March 2008, the Group's short term secured bank loans include RMB 16.8 million of loans which are guaranteed by pledged short-term deposits of RMB 20.5 million (1QFY2007: RMB 15.5 million) and RMB 14.0 million of loans which are secured by the pledge of certain of the Group's land use rights and mortgage over certain of the Group's buildings (1QFY2007: Nil). The remaining short term secured loan of RMB 20.5 million (1QFY2007: Nil) and the long term secured loan of RMB 112.9 million (1QFY2007: RMB 116.0 million) are backed by corporate guarantee of a subsidiary company.

1c) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Cash Flow Statement		
	31.3.2008	31.3.2007
	RMB'000	RMB'000
Cash flows from operating activities		
Profit before income tax and minority interests	22,230	24,144
Adjustments for:		
Depreciation of property, plant and equipment	4,246	3,999
Amortisation of intangible assets	5,690	6,458
Amortisation of land use rights	71	71
Amortisation of long-term deferred expenditures	125	125
Loss on disposal of property, plant and equipment	-	44
Interest income	(1,034)	(1,404)
Interest expense	3,752	1,970
Operating profit before working capital changes	35,080	35,407
Increase in trade and notes receivables	(2,064)	(52,065)
Decrease/(increase) in prepayments, deposits and other receivables	1,792	(121,721)
Increase in investments in associates	(3,059)	-
(Increase)/decrease in amount due from related parties	(1,698)	1,200
Decrease in amount due from holding company	-	881
(Increase)/decrease in inventories	(18,905)	6,645
Decrease in contracts for services	9,491	150
Increase/(decrease) in government grants	2,239	(547)
Increase in trade payables	4,121	92
(Decrease)/Increase in accrued liabilities and other payables	(26,776)	53,203
Increase in amount due to related parties	1,619	328
Increase in amount due to holding company	2,671	1,194
Exchange difference on consolidation	7,872	10,171
Cash from/(used in) operating activities	12,383	(65,062)
Interest paid	(3,752)	(1,970)
Income tax (paid)/refund	(3,304)	481
Net cash inflow/(outflow) from operating activities	5,327	(66,551)
Cash flows from investing activities		
Purchase of property, plant and equipment and construction in progress	(12,027)	(35,803)
Acquisition of subsidiary companies, net of cash acquired	-	(127,164)
Purchase of intangible assets	-	(21,590)
Purchase of land use rights	-	(32)
Interest received	1,034	1,404
Net cash outflow from investing activities	(10,993)	(183,185)
Cash flows from financing activities		
Proceeds from loans	-	234,558
Repayment of term loans	(12,804)	(10,000)
Net cash (outflow)/inflow from financing activities	(12,804)	224,558
Net decrease in cash and cash equivalents	(18,470)	(25,178)
Cash and cash equivalents at beginning of the period	142,886	95,577
Cash and cash equivalents at end of the period	124,416	70,399

Notes to Cash flow statement				
Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet an				
		31.3.2008	31.3.2007	
		RMB'000	RMB'000	
Cash and bank balances		114,416	47,000	
Short-term deposits		10,000	23,399	
Cash and cash equivalents		124,416	70,399	

1(d)(i) **A statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

Asiapharm Group Ltd & Subsidiaries														
GROUP														
	Attributable to equity holders of the parent											Minority interests	Total equity	
	Issued capital	Share premium account	Treasury shares	Statutory surplus reserves	Reserve fund	Enterprise expansion fund	Retained earnings	Unrealised gains reserves	Foreign currency translation reserves	Proposed final dividend	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2007	80,408	410,158	-	24,707	17,196	4,730	179,700	4,559	(13,004)	19,103	727,557	558	728,115	
Fair value change on available-for-sale investments	-	-	-	-	-	-	-	(4,188)	-	-	(4,188)	-	(4,188)	
Currency realignment	-	-	-	-	-	-	-	-	(4,487)	-	(4,487)	(7)	(4,494)	
Total income and expense for the year recognised directly to equity	-	-	-	-	-	-	-	(4,188)	(4,487)	-	(8,675)	(7)	(8,682)	
Profit for the year	-	-	-	-	-	-	59,539	-	-	-	59,539	(558)	58,981	
Total income and expense for the year	-	-	-	-	-	-	59,539	(4,188)	(4,487)	-	50,864	(565)	50,299	
Final 2006 dividend declared	-	-	-	-	-	-	-	-	-	(19,103)	(19,103)	-	(19,103)	
Issue of shares	772	17,847	-	-	-	-	-	-	-	-	18,619	-	18,619	
Share repurchase	-	-	(2,011)	-	-	-	-	-	-	-	(2,011)	-	(2,011)	
Transfer to statutory reserves	-	-	-	-	11,064	-	(11,064)	-	-	-	-	-	-	
Minority interests arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	629	629	
Proposed 2007 final dividend	-	-	-	-	-	-	(14,398)	-	-	14,398	-	-	-	
At 31 December 2007	81,180	428,005	(2,011)	24,707	28,260	4,730	213,777	371	(17,491)	14,398	775,926	622	776,548	
Fair value change on available-for-sale investments	-	-	-	-	-	-	-	106	-	-	106	-	106	
Currency realignment	-	-	-	-	-	-	-	-	1,415	-	1,415	-	1,415	
Total income and expense for the period recognised directly to equity	-	-	-	-	-	-	-	106	1,415	-	1,521	-	1,521	
Profit for the period	-	-	-	-	-	-	20,020	-	-	-	20,020	-	20,020	
Total income and expense for the period recognised directly to equity	-	-	-	-	-	-	20,020	106	1,415	-	21,541	-	21,541	
Issue of treasury shares	-	-	2,011	-	-	-	-	-	-	-	2,011	-	2,011	
At 31 March 2008	81,180	428,005	-	24,707	28,260	4,730	233,797	477	(16,076)	14,398	799,478	622	800,100	

COMPANY							
	Issued capital	Share premium account		Retained earnings	Foreign currency translation reserves	Proposed final dividend	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	80,408	410,133	-	18,659	(17,563)	19,103	510,740
Currency realignment	-	-	-	-	(33,374)	-	(33,374)
Total income and expense for the year recognised directly to equity	-	-	-	-	(33,374)	-	(33,374)
Profit for the year	-	-	-	44,071	-	-	44,071
Total income and expense for the year	-	-	-	44,071	(33,374)	-	10,697
Final 2006 dividend declared	-	-	-	-	-	(19,103)	(19,103)
Issue of shares	772	17,847	-	-	-	-	18,619
Share repurchase	-	-	(2,011)	-	-	-	(2,011)
Proposed final 2007 dividend	-	-	-	(14,398)	-	14,398	-
At 31 December 2007	81,180	427,980	(2,011)	48,332	(50,937)	14,398	518,942
Currency realignment	-	-	-	-	(14,133)	-	(14,133)
Total income and expense for the period recognised directly to equity	-	-	-	-	(14,133)	-	(14,133)
Loss for the period	-	-	-	(7,237)	-	-	(7,237)
Total income and expense for the period	-	-	-	(7,237)	(14,133)	-	(21,370)
Final 2006 dividend declared	-	-	-	-	-	-	-
Issue of treasury shares	-	-	2,011	-	-	-	2,011
Proposed final 2007 dividend	-	-	-	-	-	-	-
At 31 March 2008	81,180	427,980	-	41,095	(65,070)	14,398	499,583

Notes to Statement of changes in equity

- In accordance with the Company Law of the PRC, the Group's subsidiaries in the PRC are required to allocate 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the PRC subsidiaries, to the Statutory Surplus Reserve ("SSR") until such reserve reaches 50% of the registered capital of the PRC subsidiaries. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital. In accordance with the Company Law of the PRC, the PRC subsidiaries are required to transfer 5% to 10% of its profit after tax, as determined in accordance with the applicable PRC accounting standards and regulations, to a statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of liquidation. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the properties of the PRC subsidiaries.

According to the revised Company Law of the PRC effective from 1 January 2006, Luye R&D, Luye Trading, Jiuzhoutong, Nanjing Sike Pharmaceutical Co., Ltd ("NJSK") and Nanjing Kanghai Pharmaceutical Co., Ltd ("NJKH") are not required to transfer their profit after tax to PWF.

- Prior to 1 January 2005, Shandong Luye Pharmaceutical Co., Ltd ("SLP") appropriated its profit after tax to the SSR and PWF. SLP was converted into a wholly foreign owned enterprise during the year following the acquisition of the minority interests, and in accordance with the relevant rules applicable to foreign investment enterprise, SLP is required to appropriate 10% and 5% of its profit after tax to the reserve fund and enterprise expansion fund respectively, instead of to SSR and PWF. Reserve fund can be used to set off losses and increase capital as approved. Enterprise expansion fund must be used to expand production or operations and to increase capital as approved. With effect from 1 January 2006, based on the board resolution passed, SLP has stopped to appropriate its profits after tax to the Enterprise expansion fund.

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Not Applicable.

- 2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the Group's auditors.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the year ended 31 December 2007.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not Applicable

6. Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	31.3.2008	31.3.2007
Net Profit attributable to ordinary equity holders of the parent entity (RMB'000)	20,020	21,763
Basic EPS (RMB cents)	4.06	4.45
Diluted EPS (RMB cents)	4.06	4.45
Number of shares in calculating EPS	<u>492,764,900</u>	<u>488,864,900</u>
There were no potential dilutive ordinary shares in existence for the periods ended 31 March 2008 and 31 March 2007.		

Earnings per ordinary share for the financial periods ended 31 March 2008 and 31 March 2007 are computed based on the weighted average number of 492,764,900 shares and 488,864,900 shares in issue, respectively.

7. Net asset value (for the issuer and Group) per ordinary share based on issued share capital of the issuer at the end of the:-

(a) current financial period reported on; and

(b) immediately preceding financial year.

	Group		Company	
	31.3.2008	31.12.2007	31.3.2008	31.12.2007
Net Asset (RMB'000)	799,478	775,926	499,583	518,942
Net asset value (RMB cents)	<u>162.2</u>	<u>157.5</u>	<u>101.4</u>	<u>105.3</u>
Number of Shares in calculating NAV	<u>492,764,900</u>	<u>492,764,900</u>	<u>492,764,900</u>	<u>492,764,900</u>

(a) Net asset value per ordinary share for the Group for the current financial period is calculated by dividing Group net asset of RMB 799.5 million by the actual number of 492,764,900 shares of US\$0.02 each. Net asset value per ordinary share for the Company for the current financial period is calculated by dividing the Company's net asset of RMB 499.6 million by the actual number of 492,764,900 shares of US\$0.02 each.

(b) Net asset value per ordinary share for the Group for the immediately preceding financial year is calculated by dividing Group net asset of RMB 775.9 million by the actual number of 492,764,900 shares of US\$0.02 each. Net asset value per ordinary share for the Company for the immediately preceding financial year is calculated by dividing the Company's net asset of RMB 518.9 million by the actual number of 492,764,900 shares of US\$0.02 each.

8. **A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:-**
- (a) **any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - (b) **any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on.**

Revenue

First Quarter Performance

The Group experienced an increase in revenue in the first quarter of FY2008 ("1Q08") of RMB 17.8 million or 16.7% as compared to 1Q07. The increase in revenue can be mainly attributed to higher sales of our pharmaceutical drugs as a result of sales contribution from CMNa and drugs of the newly acquired companies. Sales of our Group's pharmaceutical drugs, including distribution sales, contributed approximately 99.5% of our total revenue in 1Q08, as compared to 99.0% in 1Q07.

Sales of our Group's pharmaceutical drugs including distribution sales in 1Q08 increased significantly by RMB 17.8 million or 16.8% as compared to 1Q07. The increase in revenue for 1Q08 was mainly due to sales contribution from CMNa by RMB 2.5 million or 76.9% and further contribution from drugs of newly acquired companies like Lipusu and Tiandixin with sales contribution of RMB 19.9 million and RMB 5.3 million, respectively. Sales for Nusosen increased by RMB 1.5 million (17.5%) despite the lower selling price while sales of Elcatonin increased by RMB 1.1 million (74.5%) as the product gained wider acceptance. Sales of Maitongna and Lutingnuo decreased by RMB 6.7 million (28.6%) and RMB 8.2 million (32.6%), respectively, due to lower sales volume and selling price.

on

Sales of R&D results decreased by RMB 0.6 million or 95.3% to RMB 0.03 million in 1QFY08 as the Group focused on R&D of our own product pipeline .

Export sales of active ingredients grew slightly by RMB 0.3 million or 66.2% in 1Q08.

Gross profit

First Quarter Performance

The Group's first quarter gross profit improved significantly by RMB 22.6 million or 26.1% from RMB 86.4 million in 1Q07 to RMB 108.9 million in 1Q08 due mainly to the increase in pharmaceutical sales. Gross profit margin improved by 6.6 percentage points, from 80.9% in 1Q07 to 87.5% in 1Q08 due mainly to the better margin of the pharmaceutical drug sales and higher margins for the newly acquired drugs.

Operating expenses

First Quarter Performance

Selling and distribution costs increased significantly by RMB 19.3 million or 50.2% from RMB 38.6 million to RMB 57.9 million due mainly to the increase in marketing and sales activities in line with the increase in sales of pharmaceutical drugs following the acquisition of SSL Group and CMNa. Also, higher travelling expenses of about RMB 10.0 million were incurred for the one time Group sales staff meeting held in 1Q08. Administrative expenses increased by RMB 6.2 million or 31.4% from RMB 19.8 million to RMB 26.1 million due to one off expense of RMB 1.9 million for employee shares awarded in 1Q08, RMB 0.9 million incurred for the newly acquired Asiapharm Biotech Pte Ltd ("ABPL", formerly known as Wearnes Biotech & Medicals (1998) Pte Ltd). Also, NJSK and NJKH have increased in travelling expenses of RMB 3.3million in total. Other expenses increased by RMB 3.9 million or 119.8% due mainly to higher R&D expenses of RMB 3.2 million or 100.2% following the Group's decision to focus more on the R&D of our own products and reduction in R&D sales. Also, there is a net exchange loss of RMB 0.4 million against a net exchange gain of RMB 0.1 million in 1Q07, as well as higher R&D expenses of RMB 2.3 million.

Profitability

First Quarter Performance

Net profit decreased marginally by RMB 1.4 million or 6.7% primarily due to:

- (i) increase in selling and distribution costs of RMB 19.3 million as explained above;
- (ii) Increase in administrative expenses of RMB 6.2 million as explained above;
- (iii) Increase in other expenses of RMB 4.7 million as explained above;
- (iv) Increase in finance costs of RMB 1.5 million due to higher interest expenses and bank charges for the increase in bank borrowings for the acquisition of WPU as well as the working capital loans of the acquired companies; offset by
- (v) Increase in other income of RMB 3.9 million due mainly to write-back of accounts payable of RMB 2.9 million and increase in government grant of RMB 1.2 million;
- (vi) increase in share of profit of associates of RMB 3.1 million following the acquisition of WPU and associates of ABPL and
- (vii) decrease in taxation of RMB 0.5 million.

Balance sheet

There is no material variance for the balance sheet items between 31 March 2008 and 31 December 2007 except for the following:

- (i) Construction-in-progress increased by RMB 9.0 million due mainly to the purchase of a new building to house the Group's R&D department in Yantai;
- (ii) Investments in associates increased by RMB 3.1 million due to the share of profits for the period;
- (iii) Intangible assets decreased by RMB 5.4 million due mainly to the amortisation charge for the quarter;

- (iv) Available-for-sale investments decreased by RMB 2.5 million due mainly to price fluctuation of the share price of NAPO Pharmaceuticals;
- (v) Inventories increased by RMB 18.9 million to RMB 61.2 million due mainly to higher level of raw materials and inventories of the newly acquired entities in line with the increase in pharmaceutical sales;
- (vi) Contract for services decreased significantly by RMB 9.5 million as a result of the decrease in long term R&D contracts following the SFDA policy changes;
- (vii) Prepayments, deposits and other receivables increased by RMB 1.8 million due mainly to the increase in other receivables from the newly acquired entities;
- (viii) Cash and cash equivalents, net of pledged short-term deposits, decreased by RMB 18.5 million to RMB 124.4 million due mainly to the following:
 - a. Net repayment of loan of RMB 12.8 million;
 - b. purchase of property, plant and equipment and CIP of RMB 12.0 million; offset by
 - c. net cash outflow from operating activities of RMB 5.3 million.
- (ix) Amount due from related parties increased by RMB 1.7 million as a result of sale of goods to certain related parties by ABPL;
- (x) Interest-bearing loans and borrowings decreased by RMB 12.8 million as a result of net repayment of loans;
- (xi) Government grants increased by RMB 2.2 million in line with the additional fundings obtained during the period;
- (xii) Trade payables increased by RMB 4.1 million mainly due to increase in raw material purchased during the quarter;
- (xiii) Accrued liabilities and other payables decreased significantly due to the settlement of outstanding amount of RMB 50.0 due to outstanding payment for the acquisition of Solid Success Limited group of companies, offset by amount due to suppliers of contractors and suppliers for the CIP purchased;
- (xiv) Amount due to a holding company increased by RMB 2.7 million as a result of expenses paid on behalf of the Group and advances made to the Group during the period; and
- (xv) Amount due to related party increased by RMB 1.6 million due mainly as a result of expenses paid on behalf of the Group. .

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

ABN AMRO Bank N.V., Singapore Branch ("ABN AMRO"), has on 5 February 2008 issued, for and on behalf of LuYe Pharmaceutical Investment Co., Ltd ("the Offeror"), an announcement ("the Offer Announcement") of the Offeror's intention to make a voluntary conditional cash offer ("Offer") for all the issued and paid-up ordinary shares of par value US\$0.02 each ("Shares") in the capital of the Company.

On 25 February 2008, ABN AMRO announced for and on behalf of the Offeror that the offer document setting out *inter alia*, the terms and conditions of the Offer by the Offeror was dispatched to Shareholders on 25 February 2008.

In the offer document, the Offeror stated its intention to make the Company its wholly-owned subsidiary and that it is not the intention of the Offeror to preserve the listing status of the Company. The Offeror also intends to exercise its right to compulsorily acquire, at the Offer Price, all the remaining Shares if it is entitled under Section 102(1) of the Companies Act 1981 of Bermuda.

In view of the above mentioned announcements by ABN AMRO issued, for and on behalf of the Offeror, of the Offeror's intention to make a voluntary conditional cash offer for all the issued and paid-up ordinary shares in the capital of the Company, the board would not be making any statement of prospects on the Company.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

12. If no dividend has been declared/recommendeded, a statement to that effect.

No dividend has been declared/recommendeded for the current period reported on.

13. Negative assurance

The board of directors of the Company hereby confirms that, to the best of its knowledge, nothing has come to the attention of the board which may render the financial results for the first quarter ended 31 March 2008 to be false or misleading in any material aspect.

PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

14. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

N.A.

15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

N.A.

16. A breakdown of sales.

N.A.

17. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

N.A.

Total Annual Dividend

Latest Full Year

Previous Full Year

Ordinary

Preference

Total:

18. Interested party transactions

For the current period reported on, there were no interested person transactions.

BY ORDER OF THE BOARD

Liu Dianbo

Executive Chairman

14.5.2008