中國製藥集團有限公司

China Pharmaceutical Group Limited

(Stock Code: 1093)

2010 Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman)*
FENG Zhenying
CHAK Kin Man
PAN Weidong
ZHAO John Huan
WANG Shunlong
WANG Huaiyu
LU Jianmin

Non-executive Director:
LEE Ka Sze, Carmelo

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

COMMITTEES

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

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

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

CHAK Kin Man
PAN Weidong

REGISTERED OFFICE

Suite 3206
32th Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China, Hebei Branch
Bank of China, Hohhot Branch
Bank of Communication, Hebei Branch
China Merchants Bank, Shenzhen Branch
China Minsheng Banking Corporation Limited, Shijiazhuang Branch
CITIC Bank International Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Hebei Banking Corporation Limited
Shanghai Pudong Development Bank, Shijiazhuang Branch
China CITIC Bank Corporation Limited, Shijiazhuang Branch

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

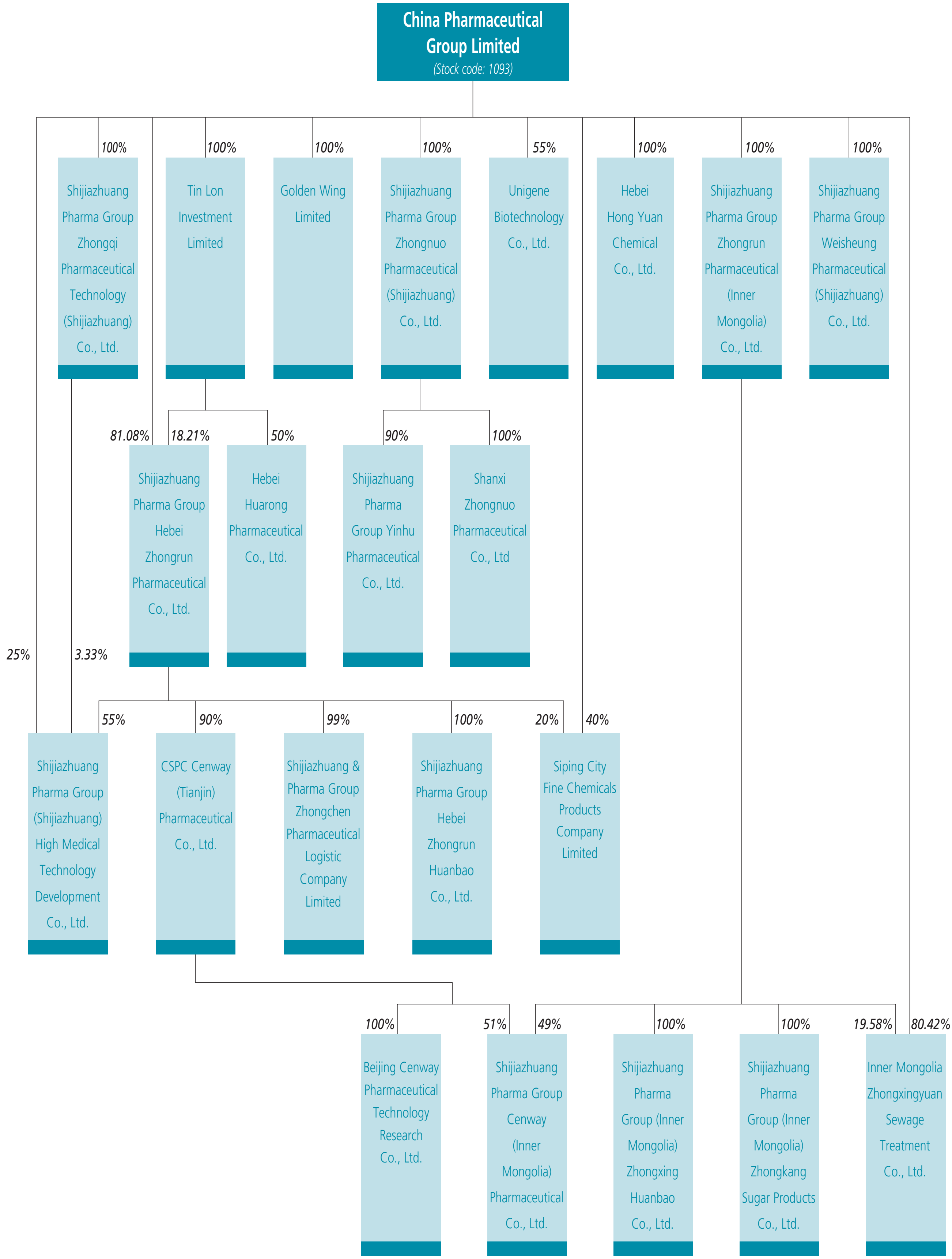
STOCK CODE

1093

WEBSITES

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

Corporate Structure



Chairman's Statement

RESULTS

For the financial year of 2010, the Group's revenue and profit attributable to shareholders amounted to HK$7,774 million and HK$752 million, representing an increase of 10.6% and a decrease of 22.6% respectively as compared to last year.

The Board of Directors recommends the payment of a final dividend of HK$24 cents per share for the year ended 31 December 2010.

BUSINESS REVIEW AND OUTLOOK

Intermediates and Bulk Drugs Business

Vitamin C Series

The sustained high price level of vitamin C in the past few years has induced a number of domestic enterprises to enter the vitamin C industry, aggravating the problem of excess capacity and leading to a significant decline in the price level during the year. Amid intensified market competition, the Group expanded production capacity to enhance economies of scale, with the aim of reducing production cost and expanding market share. Despite a general decrease of approximately 30% in the average price of the major products during the year, the substantial increase in sales volume enabled this business segment to attain revenue of HK$2,074 million, representing a decrease of 6.7% as compared to previous year.

The Group has also made significant achievement in expanding into the high-end pharmaceutical market. In addition to the GMP certificates obtained from Germany and Japan in previous years, the Group has also obtained the US FDA accreditation during the year. These achievements not only enable the Group to enter the international high-end market but also establish its leading position in product quality.

New production capacity in the PRC is expected to be put into operation in 2011 and this will cause increasing pricing pressure. The Group will continue to strengthen the collaboration with its existing customers and foster a long-term business partnership so as to consolidate its existing market share. In addition, the Group will keep on improving product quality and further enhance product differentiation to meet the requirements of different customers. The Group will also step up its market development efforts in Eastern Europe, South America and Southeast Asia.

Antibiotic Series

Driven by the rapid growth of cephalosporin products, the performance of antibiotic business significantly improved during the year. Revenue increased by 34.7% to HK$3,258 million as compared to previous year. During the year, the Group has significantly enhanced its competitiveness and scale of operation through extension of its product chain. In addition to its core products of 7-ACA and cefazolin sodium, the Group's cephalosporin series of products has extended to GCLE, ceftriaxone sodium, cefuroxime sodium, cefuroxime acid, cefotaxime sodium, cefotaxime acid and cefixime. During the year, the Group has also expanded its production capacity of 7-ACA through production facilities enhancement and has successfully reduced the production cost and enhanced the product quality of 7-ACA through a series of technology improvement initiatives, further consolidating the Group's leading position in the market.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Intermediates and Bulk Drugs Business *(continued)*

Antibiotic Series *(continued)*

With respect to penicillin, certain domestic capacities have been forced out of the market amid severe competition, making possible a slight rebound in product price during the year. While successfully maintaining its market share, the Group also strived to improve its technology and product quality. Apart from obtaining the GMP certificate from Germany and registration certificate from Russia for its bulk amoxicillin, the Group has also made significant achievement in the development of production technology. The synthetic technology for making amoxicillin can be changed successfully by using enzyme process instead of chemical process, and the Group has also successfully developed its own high-activity enzyme.

It is expected that the operating environment in 2011 will remain stable, except that the price of 7-ACA will be under pressure due to the increased domestic capacity. The Group will continue to upgrade its production technology, leverage on its current advantages in scale and cost, and flexibly adjust the production of upstream and downstream products, with the aim of achieving full capacity production and sales.

Finished Drugs Business

The finished drugs business continued to grow in 2010. Revenue increased by 4.0% to HK$2,276 million as compared to previous year. The revenue of antibiotics, health supplements, cardio-cerebrovascular drugs and Chinese medicine injections products amounted to HK$1,812 million, HK$66 million, HK$48 million and HK$88 million, accounting for 79.6%, 2.9%, 2.1% and 3.9% of the revenue of this business respectively. The overall gross profit margin remained stable, whereas the operating profit rose to HK$176.0 million.

During the year, the Group has devoted its efforts to market development and has set up specialized sales force for tapping end-user market in county hospitals, township health centers and community healthcare service centers. These efforts have met with certain success in enlarging the market coverage. With the commencement of the drugs tenders, market competition further intensified and product prices in general decreased, affecting the growth in revenue of this business. However, sales of new products were satisfactory, in particular the sales revenue of meropenem injections rose by 76% as compared to previous year.

In 2011, a new round of drugs tenders will begin in various provinces and more weight will be placed on the price factor, causing negative impact on profitability. The Group will leverage on its competitive advantages in scale of production, product quality, market reputation, sales network and cost to make its tender and marketing efforts more effective in expanding market share. In addition, the Group will devote its efforts to the market development and technology enhancement of its Chinese medicine injections and therapeutic infusion solution products, making them to become the major growth drivers. On the front of product development, the Group will continue to focus on products with strong market potential and it is expected that several first-to-market products currently under development will be granted production approval in 2012. With effective implementation of these growth strategies, we believe that the finished drugs business will be able to attain higher profitability and achieve the goal of sustainable rapid growth.

FINANCIAL REVIEW

Liquidity and financial position

In 2010, the Group's operating activities generated a net cash inflow of HK$1,007,044,000. Capital expenditure in relation to the addition of production facilities amounted to HK$791,218,000. The current ratio of the Group improved from 1.5 a year earlier to 1.8 as at 31 December 2010. Debtor turnover period (ratio of the total balance of trade and bills receivables to sales, inclusive of value added tax for sales in the PRC) increased from 73 days in 2009 to 80 days in the current year. Inventory turnover period (ratio of inventory balance to cost of sales) also slightly increased from 75 days in 2009 to 80 days.

The Group's financial position remained strong. As at 31 December 2010, bank balances and cash amounted to HK$1,141,736,000 and total borrowings amounted to HK$1,529,517,000. Out of the total borrowings, HK$323,282,000 will be repayable within one year and the remaining HK$1,206,235,000 repayable between two to four years. Net gearing ratio (calculated on the basis of the Group's total borrowings net of bank balances and cash over shareholders' equity) increased from previous year's 2.0% to 6.8%.

42% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 58% in Renminbi. The Group's revenue is mainly either in Renminbi or in US dollars. The Group believes that its exposure to foreign currency risks is not significant, but we will monitor closely the currency movement.

Pledge of assets

As at 31 December 2010, bank deposits of HK$41,930,000 (2009: HK$50,637,000) were pledged to banks to secure short-term banking facilities.

Contingent liabilities

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

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

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

EMPLOYEES

At the end of the reporting period, the Group had about 10,687 employees. The majority of them are employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

Chairman's Statement

ACKNOWLEDGEMENT

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

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 30 March 2011

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standards of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2010 with deviation from code provision A.2.1 as set out below.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises eight executive directors, one non-executive director and four independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 13 to 16 of this annual report.

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

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2010. Individual attendance of each director at the regular board meetings and committee meetings in 2010 is set out below:

	Number of meetings attended/held		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors:			
Cai Dongchen *(Chairman)*	4/4		
Yue Jin *(resigned on 21 September 2010)*	2/4		
Feng Zhenying	3/4		
Chak Kin Man	4/4		
Pan Weidong	4/4		
Zhao John Huan	3/4		
Wang Shunlong	4/4		
Wang Huaiyu *(appointed on 8 October 2010)*	1/4		
Lu Jianmin *(appointed on 8 October 2010)*	1/4		
Non-Executive Director:			
Lee Ka Sze, Carmelo	4/4	4/4	2/2
Independent Non-Executive Directors:			
Huo Zhenxing	4/4	4/4	2/2
Qi Moujia	4/4		
Guo Shichang	4/4		
Chan Siu Keung, Leonard	4/4	4/4	2/2

BOARD OF DIRECTORS *(continued)*

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of two years from 1 January 2009 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

Such service contracts have been renewed for a term of two years from 1 January 2011 as at the date of this report.

REMUNERATION OF DIRECTORS

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

The remuneration of the directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market practices. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

The committee met twice in 2010 to consider and approve the remuneration packages for executive directors of the Company.

NOMINATION OF DIRECTORS

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

NOMINATION OF DIRECTORS *(continued)*

During the year, there were the following changes in directorship of the Company which had been approved by the Board at its meetings:

1. Mr. Yue Jin resigned as executive director of the Company due to personal reasons on 21 September 2010; and

2. Mr. Wang Huaiyu and Mr. Lu Jianmin were appointed as executive directors of the Company on 8 October 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2010.

AUDIT COMMITTEE

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

Four meetings were held in 2010. At the meetings, the committee discussed and reviewed the following matters:

1. the 2009 annual results, annual report and results announcement;
2. the external auditor's report to the Audit Committee in respect of the 2009 annual audit;
3. the quarterly results for the three months ended 31 March 2010 and results announcement;
4. the 2010 interim results, interim report and results announcement;
5. the external auditor's report to the Audit Committee in respect of the 2010 interim review;
6. the quarterly results for the nine months ended 30 September 2010 and results announcement; and
7. the performance of the external auditor and its remuneration.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review has covered all material controls, including financial, operational and compliance controls and risk management functions. In addition, the review has considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function and their training programmes and budget. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$2,115,000 for audit services and HK$545,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and certain agreed-upon procedures.

FINANCIAL REPORTING

The responsibilities for the financial statements of the directors and the external auditor are set out on page 20 of this annual report.

COMMUNICATIONS WITH SHAREHOLDERS

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

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

At the 2010 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee and Remuneration Committee has attended the 2010 annual general meeting to ensure effective communication with shareholders.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and jointly controlled entity are set out in notes 42 and 20 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 22 of the annual report.

The Board of Directors recommends the payment of a final dividend of HK24 cents per share for the year ended 31 December 2010, representing a distribution of HK$367,732,000. Subject to shareholders' approval of the final dividend at the annual general meeting on 27 May 2011, payment of the final dividend will be made on 15 June 2011 to shareholders whose names appear on the register of members of the Company on 27 May 2011.

The register of members of the Company will be closed from Monday, 23 May 2011 to Friday, 27 May 2011, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30p.m. on Friday, 20 May 2011.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2010 comprised the retained profits of HK$413,770,000 (2009: HK$585,678,000).

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of HK$791,218,000 during the year. Details of these and movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and the share option scheme of the Company are set out in notes 30 and 31 to the consolidated financial statements, respectively.

DIRECTORS

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

Executive directors:

Cai Dongchen, *Chairman*	
Yue Jin	(resigned on 21 September 2010)
Feng Zhenying	
Chak Kin Man	
Pan Weidong	
Zhao John Huan	
Wang Shunlong	
Wang Huaiyu	(appointed on 8 October 2010)
Lu Jianmin	(appointed on 8 October 2010)

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing
Qi Moujia
Guo Shichang
Chan Siu Keung, Leonard

In accordance with Article 92 of the Company's Articles of Association, Messers. Wang Huaiyu and Lu Jianmin retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Pan Weidong, Huo Zhenxing, Guo Shichang and Chan Siu Keung, Leonard retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 57, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. He is also a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has over thirty years of technical and management experience in the pharmaceutical industry. Mr. Cai is a deputy of the 11th National People's Congress of the People's Republic of China (the "PRC").

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

FENG Zhenying

Mr. Feng, aged 55, was appointed as an executive director of the Company in 2003. He is also a director of certain subsidiaries of the Group. He graduated from Hebei Chemical College and has over twenty years of technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 45, was appointed as an executive director of the Company in 2005. He is also a director of certain subsidiaries of the Group. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor of social sciences degree from The University of Hong Kong and has over twenty years of experience in auditing and financial management.

PAN Weidong

Mr. Pan, aged 41, was appointed as an executive director of the Company in 2006. He is also a director of certain subsidiaries of the Group. He graduated from Shijiazhuang Post College and has over twenty years of experience in financial management and accounting.

ZHAO John Huan

Mr. Zhao, aged 48, was appointed as an executive director of the Company in 2008. He holds a MBA degree from Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. Mr. Zhao has extensive experience in senior management positions at several companies in the United States and the PRC. Mr. Zhao is currently a vice president and executive director of Legend Holdings Limited ("Legend") and the CEO of Hony Capital Limited.

Mr. Zhao is also a non-executive director of China Glass Holdings Limited (listed on The Stock Exchange of Hong Kong Limited), a non-executive director of Wumart Stores, Inc. (listed on The Stock Exchange of Hong Kong Limited), a director of Simcere Pharmaceutical Group (listed on New York Stock Exchange) and an independent director of Gemdale Holdings Co., Limited (listed on Shanghai Stock Exchange). Mr. Zhao became a non-executive non-independent director of Biosensors International Group, Ltd. (listed on Singapore Exchange Limited) upon his appointment on 8 November 2010.

WANG Shunlong

Mr. Wang, aged 46, was appointed as an executive director of the Company in 2008. He holds a doctorate degree in engineering from Tsinghua University and has spent three years as a visiting researcher at Eindhoven University of Technology in the Netherlands. Mr. Wang has extensive experience in corporate management and investment planning. Mr. Wang is currently a managing director of Hony Capital Limited and a director of Massive Giant Group Limited ("Massive Giant").

Mr. Wang ceased to be an independent non-executive director of Zhongyu Gas Holdings Limited (listed on The Stock Exchange of Hong Kong Limited) upon his resignation on 5 October 2010.

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

WANG Huaiyu

Mr. Wang Huaiyu, aged 48, was appointed as an executive director of the Company in 2010. He is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor degree in microbiology and biochemistry from Hebei University and has more than 20 years of technical and management experience in the pharmaceutical industry.

LU Jianmin

Mr. Lu Jianmin, aged 52, was appointed as an executive director of the Company in 2010. Mr. Lu has more than 20 years of technical and management experience in the pharmaceutical industry.

LEE Ka Sze, Carmelo

Mr. Lee, aged 50, was appointed as an independent non-executive director of the Company in 1996 and redesignated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. Lee holds a bachelor of laws degree from The University of Hong Kong. He is a practising solicitor and a partner of Woo, Kwan, Lee & Lo. Mr. Lee is currently a deputy chairman of the Listing Committee of The Stock Exchange of Hong Kong Limited.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, The Cross-Harbour (Holdings) Limited, Yugang International Limited, Y.T. Realty Group Limited, Safety Godown Company, Limited and Termbray Industries International (Holdings) Limited, and an independent non-executive director of KWG Property Holding Limited and Ping An Insurance (Group) Company of China, Ltd. All of the above companies are listed on The Stock Exchange of Hong Kong Limited.

HUO Zhenxing

Mr. Huo, aged 75, was appointed as an independent non-executive director of the Company in 1994. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 78, was appointed as an independent non-executive director of the Company in 1996. He was the former director of the State Drug Administration of China (the "SDA", now known as the State Food and Drug Administration of China). He was the deputy chairman and chairman of the SDA in 1978 and 1982-1994, respectively.

Mr. Qi is also an independent director of 3SBio, Inc. (listed on NASDAQ).

GUO Shichang

Mr. Guo, aged 69, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government in the PRC from 1993 to 2002.

Mr. Guo is also an independent director of North China Pharmaceutical Company Limited (listed on Shanghai Stock Exchange).

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

CHAN Siu Keung, Leonard

Mr. Chan, aged 53, was appointed as an independent non-executive director of the Company in 2004. He is also the Chairman of the Audit Committee and Remuneration Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

Mr. Chan is also an executive director of Tern Properties Company Limited (listed on The Stock Exchange of Hong Kong Limited).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions:

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	3,500,000	0.23%
Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2010.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 31 to the consolidated financial statements, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Massive Giant	Beneficial owner	783,482,393	51.04%
Legend	Interest to an agreement	783,482,393 *(note i)*	51.04%
Employees' Shareholding Society of Legend ("Employees' Society")	Interest held by a controlled corporation	783,482,393 *(note ii)*	51.04%
Mirae Asset Global Investments (Hong Kong) Limited	Investment manager	77,292,000	5.04%

Notes:

(i) Legend and Massive Giant are parties to an agreement to which Section 317(1)(a) of the SFO applies. Legend is deemed to be interested in the 783,482,393 shares of the Company held by Massive Giant.

(ii) Employees' Society owns 35% interest in Legend. Employees' Society is deemed to be interested in the 783,482,393 shares of the Company held by Massive Giant.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at 31 December 2010.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 24 to the consolidated financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain procedures in respect of the continuing connected transactions of the Group. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

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

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

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

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

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

DISCLOSURE UNDER RULE 13.17 OF THE LISTING RULES

Pursuant to a bank loan agreement dated 14 December 2009 entered into between a bank and Shijiazhuang Pharmaceutical Group Company Limited ("SPG") (a wholly-owned subsidiary of Massive Giant), a facility in the aggregate amount of RMB510,000,000 was made available by the bank to SPG and certain subsidiaries of the Company. The facility is a general working facility for three years from 14 December 2009. Out of the aggregate facility amount of RMB510,000,000, RMB210,000,000 was made available to certain subsidiaries of the Company. As a condition under the loan agreement, Massive Giant has pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. At 31 December 2010, the Group did not utilise the facility.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.17 of the Listing Rules.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Pursuant to two bank loan agreements, it will be an event of default under each of the loan agreements if (i) Hony Capital Fund III, L.P. ("Hony Capital") ceases to own (directly or indirectly) at least 35% interest in the Company; (ii) Legend ceases to own (directly or indirectly) at least 34.48% interest in Hony Capital; or (iii) any replacement or addition (in terms of head count) of executive directors of the Company exceeds one third of the existing executive directors. The outstanding principal of these two bank loans at 31 December 2010 amounted to HK$165,400,000 and the last instalment repayment is due in December 2011.

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

ANNUAL CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EMOLUMENT POLICY

The emoluments of the directors of the Company are determined by the Remuneration Committee with reference to the performance of the Group, performance and responsibilities of individuals and prevailing market practices.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$11,932,000.

EVENT AFTER THE REPORTING PERIOD

Details of a significant event occurring after the reporting period are set out in note 43 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board
CAI Dongchen
Chairman

30 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF CHINA PHARMACEUTICAL GROUP LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 92, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	7	**7,774,424**	7,031,601
Cost of sales		**(5,500,837)**	(4,764,308)
Gross profit		**2,273,587**	2,267,293
Other income		**71,121**	49,482
Selling and distribution expenses		**(520,826)**	(587,842)
Administrative expenses		**(626,163)**	(461,522)
Other expenses		**(177,889)**	(96,848)
Operating profit		**1,019,830**	1,170,563
Share of results of a jointly controlled entity		**8,732**	1,035
Net gain on disposal of subsidiaries	36	**—**	24,128
Finance costs	8	**(63,788)**	(69,916)
Profit before tax	9	**964,774**	1,125,810
Income tax expense	10	**(189,963)**	(142,776)
Profit for the year		**774,811**	983,034
Profit for the year attributable to:			
Owners of the Company		**751,689**	970,739
Non-controlling interests		**23,122**	12,295
		774,811	983,034
		HK cents	HK cents
Earnings per share — Basic	14	**48.97**	63.24

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Profit for the year		**774,811**	983,034
Other comprehensive income (expense):			
Exchange differences arising on translation to presentation currency		**216,581**	—
(Loss) gain on fair value change of an available-for-sale investment		**(337)**	758
Capital contribution reserve released on disposal of a subsidiary	36	**—**	(1,599)
Other comprehensive income (expense) for the year		**216,244**	(841)
Total comprehensive income for the year		**991,055**	982,193
Total comprehensive income attributable to:			
Owners of the Company		**963,455**	969,898
Non-controlling interests		**27,600**	12,295
		991,055	982,193

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	15	**4,353,404**	4,044,989
Prepaid lease payments	16	**302,141**	257,499
Intangible assets	17	**207,603**	154,528
Goodwill	18	**156,166**	150,843
Interest in a jointly controlled entity	20	**29,054**	23,976
Available-for-sale investments	21	**7,433**	7,770
		5,055,801	4,639,605
Current assets			
Inventories	22	**1,204,864**	978,525
Trade and other receivables	23	**1,441,956**	1,065,967
Bills receivables	23	**810,838**	725,750
Prepaid lease payments	16	**8,808**	7,605
Tax recoverable		**—**	60
Trade receivables due from related companies	24	**14,016**	—
Trade receivables due from a connected company	24	**14,407**	28,283
Amount due from a jointly controlled entity	24	**26,764**	17,939
Pledged bank deposits	25	**41,930**	50,637
Bank balances and cash	25	**1,099,806**	1,443,163
		4,663,389	4,317,929
Current liabilities			
Trade and other payables	26	**1,766,323**	1,497,610
Bills payables	26	**440,647**	357,045
Trade payables due to a related company	24	**—**	829
Amounts due to related companies	24	**740**	7,057
Amounts due to connected companies	24	**884**	37,449
Tax liabilities		**60,291**	96,540
Unsecured bank loans	27	**323,282**	880,782
		2,592,167	2,877,312
Net current assets		**2,071,222**	1,440,617
Total assets less current liabilities		**7,127,023**	6,080,222

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Unsecured bank loans	27	**1,206,235**	687,027
Loan from a jointly controlled entity	28	**—**	28,409
Deferred tax liabilities	29	**44,348**	35,323
		1,250,583	750,759
Net assets		**5,876,440**	5,329,463
Capital and reserves			
Share capital	30	**153,496**	153,496
Reserves		**5,587,013**	5,006,788
Equity attributable to owners of the Company		**5,740,509**	5,160,284
Non-controlling interests		**135,931**	169,179
Total equity		**5,876,440**	5,329,463

The consolidated financial statements from pages 22 to 92 were approved and authorised for issue by the board of directors on 30 March 2011 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	15	**173**	387
Investments in subsidiaries	32	**1,465,164**	1,444,574
		1,465,337	1,444,961
Current assets			
Other receivables		**5,629**	11,231
Amounts due from subsidiaries	33	**869,541**	1,136,547
Bank balances and cash	25	**14,632**	28,037
		889,802	1,175,815
Current liabilities			
Other payables		**35,430**	37,659
Unsecured bank loans	27	**217,400**	312,600
		252,830	350,259
Net current assets		**636,972**	825,556
Total assets less current liabilities		**2,102,309**	2,270,517
Non-current liability			
Unsecured bank loans	27	**418,000**	414,300
Net assets		**1,684,309**	1,856,217
Capital and reserves			
Share capital	30	**153,496**	153,496
Reserves	34	**1,530,813**	1,702,721
Total equity		**1,684,309**	1,856,217

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Equity attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital contribution HK$'000	Goodwill reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Non-distributable reserves HK$'000 (note i)	Retained profits HK$'000	Total HK$'000	Non controlling interests HK$'000	Total HK$'000
At 1 January 2009	153,496	1,116,727	316	1,599	(160,130)	–	733,145	588,202	2,064,023	4,497,378	85,817	4,583,195
Gain on fair value change of an available-for-sale investment	–	–	–	–	–	758	–	–	–	758	–	758
Released on disposal of a subsidiary *(note 36)*	–	–	–	(1,599)	–	–	–	–	–	(1,599)	–	(1,599)
Profit for the year	–	–	–	–	–	–	–	–	970,739	970,739	12,295	983,034
Total comprehensive income for the year	–	–	–	(1,599)	–	758	–	–	970,739	969,898	12,295	982,193
Acquisition of additional interest in a subsidiary *(note ii)*	–	–	–	–	–	–	–	–	–	–	(6,067)	(6,067)
Final dividend for the year ended 31 December 2008 *(note 13)*	–	–	–	–	–	–	–	–	(306,992)	(306,992)	–	(306,992)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	34,092	34,092
Released on disposal of subsidiaries	–	–	–	–	–	–	(17,229)	–	17,229	–	–	–
Acquisition of subsidiaries *(note 35)*	–	–	–	–	–	–	–	–	–	–	43,042	43,042
At 31 December 2009	**153,496**	**1,116,727**	**316**	**–**	**(160,130)**	**758**	**715,916**	**588,202**	**2,744,999**	**5,160,284**	**169,179**	**5,329,463**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**751,689**	**751,689**	**23,122**	**774,811**
Other comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**(337)**	**212,103**	**–**	**–**	**211,766**	**4,478**	**216,244**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(337)**	**212,103**	**–**	**751,689**	**963,455**	**27,600**	**991,055**
Final dividend for the year ended 31 December 2009 *(note 13)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(368,391)**	**(368,391)**	**–**	**(368,391)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(23,588)**	**(23,588)**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,133**	**8,133**
Acquisition of additional interest in subsidiaries *(note iii)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,839)**	**(14,839)**	**(45,393)**	**(60,232)**
At 31 December 2010	**153,496**	**1,116,727**	**316**	**–**	**(160,130)**	**421**	**928,019**	**588,202**	**3,113,458**	**5,740,509**	**135,931**	**5,876,440**

Notes:

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

(ii) During the year ended 31 December 2009, the Group acquired the remaining 49% equity interest in a non wholly-owned subsidiary, Shijiazhuang Pharma Group (Inner Mongolia) Zhongxing Huanbao Co., Ltd., ("Zhongxing Huanbao") which then became a wholly-owned subsidiary of the Company.

(iii) During the year ended 31 December 2010, the shareholding of the Group in a non wholly-owned subsidiary, Shijiazhuang Pharma Group Hebei Zhongrun Huanbao Co., Ltd. ("Zhongrun Huanbao") has increased from 84.4% to 99.29%. In addition, the shareholding of the Group in a non wholly-owned subsidiary, Shijiazhuang Pharma Group Yinhu Pharmaceutical Co., Ltd., ("Yinhu") has increased from 70% to 90%.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**964,774**	1,125,810
Adjustments for:		
Amortisation of intangible assets	**30,471**	22,686
Amortisation of prepaid lease payments	**7,735**	6,271
Depreciation of property, plant and equipment	**535,946**	473,234
Finance costs	**63,788**	69,916
Impairment loss on trade receivables	**4,895**	5,000
Interest income	**(8,120)**	(9,751)
Loss on disposal/write-off of property, plant and equipment	**70,065**	11,229
Net gain on disposal of subsidiaries	**—**	(24,128)
Share of results of a jointly controlled entity	**(8,732)**	(1,035)
Operating cash flows before movements in working capital	**1,660,822**	1,679,232
(Increase) decrease in inventories	**(226,339)**	424,397
Increase in trade and other receivables	**(380,884)**	(144,645)
Increase in bills receivables	**(85,088)**	(380,585)
Decrease (increase) in trade receivables due from a connected company	**13,876**	(5,220)
Increase in trade receivables due from related companies	**(14,016)**	—
Increase in amount due from a jointly controlled entity	**(8,825)**	(4,455)
Increase in trade and other payables	**224,954**	98,287
Increase in bills payables	**83,602**	103,636
Decrease in trade payables due to a related company	**(829)**	(16,882)
(Decrease) increase in amounts due to related companies	**(6,317)**	56,586
Decrease in amounts due to connected companies	**(36,565)**	(93,330)
Cash generated from operations	**1,224,391**	1,717,021
PRC Enterprise Income Tax paid	**(217,347)**	(159,540)
PRC Enterprise Income Tax refunded	**—**	10,216
NET CASH FROM OPERATING ACTIVITIES	**1,007,044**	1,567,697

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(747,459)**	(691,534)
Expenditure of development costs	**(77,678)**	(21,394)
Prepaid lease payments paid	**(43,163)**	(4,806)
Proceeds on disposal of property, plant and equipment	**23,137**	14,612
Decrease (increase) in pledged bank deposits	**8,707**	(48,896)
Interest received	**8,120**	9,751
Dividends received from a jointly controlled entity	**4,546**	—
Acquisition of subsidiaries	**—**	(249,515)
Disposal of subsidiaries	**—**	(8,021)
Purchase of an available-for-sale investment	**—**	(1,705)
NET CASH USED IN INVESTING ACTIVITIES	**(823,790)**	(1,001,508)
FINANCING ACTIVITIES		
Repayment of unsecured bank loans	**(1,034,763)**	(1,134,600)
Dividend paid	**(368,391)**	(306,992)
Interest paid	**(63,788)**	(69,916)
Acquisition of additional interests in subsidiaries	**(60,232)**	(10,227)
Repayment of loan from a jointly controlled entity	**(28,409)**	—
Dividend paid to non-controlling interests	**(23,588)**	—
New unsecured bank loans raised	**996,471**	1,328,782
Capital contribution from non-controlling interests	**8,133**	34,092
Repayment of loan from a related company	**—**	(113,636)
Loan raised from a jointly controlled entity	**—**	28,409
NET CASH USED IN FINANCING ACTIVITIES	**(574,567)**	(244,088)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(391,313)**	322,101
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,443,163**	1,121,062
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**47,956**	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**1,099,806**	1,443,163

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is Massive Giant Group Limited ("Massive Giant"), a limited liability company incorporated in the British Virgin Islands and holding approximately 51.04% of the issued share capital of the Company. By virtue of an agreement, Legend Holdings Limited ("Legend"), an investment holding company established in the People's Republic of China (the "PRC"), is entitled to exercise or control the exercise of the shares held by Massive Giant in the Company. Therefore, Legend is regarded as a controlling shareholder of the Company. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

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

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

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

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 in relation to amendments to HKAS 1 Presentation of Financial Statements
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

HKFRS 3 (as revised in 2008) Business Combinations

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current year in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods. The application of HKAS 27 had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective dates (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

Except as described above, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except early adoption of amendments to HKAS 1 Presentation of Financial Statements[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 February 2010

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and the application of the new Standard is not expected to have a material impact on the Group's financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries *(continued)*

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010 (continued)

When the Group losses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Business combinations that took place prior to 1 January 2010

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

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Goodwill

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

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit first. Any impairment loss for the goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses.

Jointly controlled entity

A joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity is referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in a jointly controlled entity is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entity. When the Group's share of losses of the jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. Additional losses is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with the jointly controlled entity, profits or losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of the interests in the jointly controlled entity that are not related to the Group.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve.

Financial liabilities and equity instruments

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities, including trade and other payables, bills payables, trade payables due to a related company, amounts due to related companies, amounts due to connected companies, unsecured bank loans and loans from a related company/the jointly controlled entity are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

Revenue recognition

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

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

Service income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established. (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable, which is when the refund is approved by the relevant government authorities.

Retirement benefit costs

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and its interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HKD) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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

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

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at 31 December 2010 was HK$316,296,000 (2009: HK$310,973,000), of which HK$160,130,000 (2009: HK$160,130,000) was included in the goodwill reserve. Details of the recoverable amount calculation are disclosed in note 19.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in notes 27 and 28, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	**3,297,088**	3,205,098	**888,205**	1,165,236
Available-for-sale investments	**7,433**	7,770	**—**	—
Financial liabilities				
Amortised cost	**3,515,831**	3,313,649	**635,400**	726,900

6b. Financial risk management objectives and policies

The major financial instruments of the Group and the Company include pledged bank deposits, trade and other receivables, bills receivables, trade receivables due from a connected company, trade receivables due from related companies, amount due from a jointly controlled entity, amounts due from subsidiaries, bank balances and cash, trade and other payables, bills payables, trade payables due to a related company, amounts due to related companies, amounts due to connected companies, unsecured bank loans and loan from a jointly controlled entity. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

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

The Group and the Company currently do not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk (continued)

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

	THE GROUP				THE COMPANY			
	Liabilities		Assets		Liabilities		Assets	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HKD	**635,400**	395,400	**14,074**	14,595	**635,400**	395,400	**14,071**	9,876
USD	**—**	331,500	**455,545**	433,946	**—**	331,500	**509**	18,135

Sensitivity analysis

The Group and the Company are mainly exposed to HKD and USD.

The following tables detail the sensitivity of the Group and the Company to a 5% (2009: 5%) increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit before tax where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before tax and the balances below would be negative.

	THE GROUP				THE COMPANY			
	HKD Impact		USD Impact		HKD Impact		USD Impact	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit before tax	**29,587**	18,134 *(i)*	**(21,693)**	(4,878) *(ii)*	**29,587**	18,358 *(i)*	**(24)**	14,922 *(ii)*

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

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk (continued)

The Group's bank balances and bank deposits carry interest at floating rates and have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rates. The directors of the Company consider the Group's exposure is not significant as those interest bearing bank balances and deposits are within a short maturity period.

The Group is also exposed to fair value interest rate risk primarily in relation to the fixed-rate bank borrowings and borrowings from a related company/a jointly controlled entity (see notes 27 and 28 for details of these loans), which are raised from the banks, a related company and a jointly controlled entity by the subsidiaries in the PRC. In relation to these fixed-rate borrowings, the Group aims at keeping borrowings at variable rate. In order to achieve this result, the Group negotiated with the banks and entered into various revolving borrowings such that the interest rates associated with the borrowings are more or less variable. In this regard, the directors of the Company consider that the Group's fair value interest rate risk is minimised.

The Group and the Company is also exposed to cash flow interest rate risk primarily in relation to the floating-rate bank borrowings (see note 27 for details of these borrowings). It is the policy of the Group and the Company to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances expose the Group and the Company to cash flow interest rate risk due to the fluctuation of the prevailing interest rates.

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's and the Company's profit before tax for the year ended 31 December 2010 would decrease/increase by HK$7,648,000 (2009: HK$5,339,000) and HK$3,177,000 (2009: HK$3,635,000), respectively.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its investments in available-for-sale listed equity investments (note 21). The directors of the Company are of the opinion that such investment is held for long-term strategic purpose and management would take necessary action to mitigate the underlying risk should the need arise. In addition, the directors consider the effect of changes in equity prices on the Group is insignificant and therefore, no sensitivity analysis is presented.

Credit risk

As at 31 December 2010, the maximum exposure to credit risk by the Group and the Company which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from:

— the carrying amounts of the respective recognised financial assets as stated in the statements of financial position.

— the amounts of contingent liabilities in relating to financial guarantees issued by the Group and the Company as disclosed in note 40.

The Group and the Company is mainly exposed to HKD and USD.

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

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

The credit risk on liquid funds of the Group and the Company is limited because the counterparties are banks with good reputation.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2010, the Group have available unutilised bank loan facilities HK$427,059,000 (2009: HK$288,636,000). Details of which are set out in note 27.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

THE GROUP

2010

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	1-3 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables		925,403	223,308	395,332	—	1,544,043	1,544,043
Bills payables		218,295	222,352	—	—	440,647	440,647
Amounts due to related companies		740	—	—	—	740	740
Amounts due to connected companies		884	—	—	—	884	884
Unsecured bank loans — floating-rate	3.36	—	89,828	291,878	1,191,828	1,573,534	1,529,517
Financial guarantee contracts		—	—	—	29,411	29,411	—
		1,145,322	535,488	687,210	1,221,239	3,589,259	3,515,831

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

THE GROUP (continued)

2009

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	1-3 years	Total undiscounted cash flows	Carrying amount at 31.12.2009
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables		473,910	477,884	363,257	—	1,315,051	1,315,051
Bills payables		62,500	170,454	124,091	—	357,045	357,045
Trade payables due to a related company		829	—	—	—	829	829
Amounts due to related companies		7,057	—	—	—	7,057	7,057
Amounts due to connected companies		37,449	—	—	—	37,449	37,449
Unsecured bank loans							
— fixed-rate	4.06	—	425,700	94,600	—	520,300	500,000
— floating-rate	2.91	—	51,055	369,523	728,467	1,149,045	1,067,809
Loan from a jointly controlled entity	5.40	—	—	—	29,943	29,943	28,409
Financial guarantee contracts		—	—	—	28,409	28,409	—
		581,745	1,125,093	951,471	786,819	3,445,128	3,313,649

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

THE COMPANY

2010

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	1-3 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Unsecured bank loans							
— floating-rate	**1.77**	**—**	**71,239**	**166,150**	**430,519**	**667,908**	**635,400**

2009

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	1-3 years	Total undiscounted cash flows	Carrying amount at 31.12.2009
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Unsecured bank loans							
— floating-rate	2.11	—	51,055	285,625	424,308	760,988	726,900
Financial guarantee contracts		—	—	56,818	—	56,818	—
		—	51,055	342,443	424,308	817,806	726,900

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6c. Fair value

The fair value of available-for-sale listed equity investments traded in an active liquid market is determined with reference to quoted market bid prices (i.e. level 1 fair value measurement under HKFRS 7).

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

7. REVENUE AND SEGMENT INFORMATION

	2010	2009
	HK$'000	*HK$'000*
Sale of goods	**7,774,424**	7,013,351
Service income	**—**	18,250
	7,774,424	7,031,601

The Group's operating and reportable segments, identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance, are summarised below. This is also the basis upon which the Group is organised.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Intermediates and bulk drugs

— vitamin C series

— antibiotics series (i.e. penicillin series and cephalosporin series)

(b) Finished drugs

(c) Other pharmaceutical related business

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31 December 2010:

	Intermediates and Bulk Drugs						
	Vitamin C series	Antibiotics series	Finished Drugs	Others	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE							
External sales	2,074,070	3,257,899	2,276,340	166,115	7,774,424	—	7,774,424
Inter-segment sales	1,483	892,933	—	290,713	1,185,129	(1,185,129)	—
TOTAL REVENUE	2,075,553	4,150,832	2,276,340	456,828	8,959,553	(1,185,129)	7,774,424
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT	715,935	259,058	176,033	3,555			1,154,581
Unallocated income							8,120
Unallocated central expenses							(142,871)
Operating profit							1,019,830
Share of results of a jointly controlled entity							8,732
Finance costs							(63,788)
Profit before tax							964,774

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2009:

	Intermediates and Bulk Drugs						
	Vitamin C series HK$'000	Antibiotics series HK$'000	Finished Drugs HK$'000	Others HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
SEGMENT REVENUE							
External sales	2,222,093	2,419,479	2,188,596	201,433	7,031,601	—	7,031,601
Inter-segment sales	7,704	574,451	—	81,660	663,815	(663,815)	—
TOTAL REVENUE	2,229,797	2,993,930	2,188,596	283,093	7,695,416	(663,815)	7,031,601
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT	1,119,996	32,516	142,169	12,029			1,306,710
Unallocated income							9,751
Unallocated central expenses							(145,898)
Operating profit							1,170,563
Share of results of a jointly controlled entity							1,035
Net gain on disposal of subsidiaries							24,128
Finance costs							(69,916)
Profit before tax							1,125,810

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income, central administrative expenses, central advertising costs, share of results of a jointly controlled entity, net gain on disposal of subsidiaries and finance costs. This is the measure reported to the board of directors for the purposes of resources allocation and performance assessment.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

Segment assets

	2010	2009
	HK$'000	*HK$'000*
Intermediates and Bulk Drugs:		
Vitamin C series	**1,482,845**	1,355,225
Antibiotics series	**4,913,203**	4,440,124
Finished Drugs	**1,776,012**	1,275,160
Others	**370,538**	366,918
Total segment assets	**8,542,598**	7,437,427
Unallocated	**1,176,592**	1,520,107
Consolidated total assets	**9,719,190**	8,957,534

Segment liabilities

	2010	2009
	HK$'000	*HK$'000*
Intermediates and Bulk Drugs:		
Vitamin C series	**409,665**	281,661
Antibiotics series	**1,212,427**	1,098,796
Finished Drugs	**501,420**	404,965
Others	**49,652**	76,910
Total segment liabilities	**2,173,164**	1,862,332
Unallocated	**1,669,586**	1,765,739
Consolidated total liabilities	**3,842,750**	3,628,071

For the purposes of monitoring segment performances and allocating resources among segments, all assets are allocated to reportable segments other than the interest in the jointly controlled entity, pledged bank deposits, tax recoverable, other receivables of the Company and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments; and all liabilities are allocated to reportable segments other than tax liabilities, unsecured bank loans, loans from a related company, loan from a jointly controlled entity, other payables of the Company and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2010:

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	Antibiotics series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Sub-total *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Addition to non-current assets *(note)*	**291,715**	**349,684**	**206,708**	**63,952**	**912,059**	**—**	**912,059**
Depreciation and amortisation	**149,565**	**374,200**	**46,453**	**3,720**	**573,938**	**214**	**574,152**

For the year ended 31 December 2009:

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	Antibiotics series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Sub-total *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Addition to non-current assets *(note)*	146,261	717,952	215,308	35,536	1,115,057	—	1,115,057
Depreciation and amortisation	137,669	314,442	43,206	6,660	501,977	214	502,191

Note: Non-current assets excluded interest in a jointly controlled entity and available-for-sale investments.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

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

	2010	2009
	HK$'000	*HK$'000*
The PRC	**4,791,686**	4,422,439
Asia other than the PRC	**1,727,541**	1,291,746
Americas	**629,066**	681,762
Europe	**538,946**	552,623
Others	**87,185**	83,031
	7,774,424	7,031,601

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group in both years.

8. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on:		
— bank loans wholly repayable within five years	**51,805**	56,251
— loan from a related company wholly repayable within five years	**—**	1,662
— loan from a jointly controlled entity wholly repayable within five years	**315**	767
— discounted bills	**1,503**	7,131
Bank loan arrangement fees	**10,165**	4,105
	63,788	69,916

9. PROFIT BEFORE TAX

	2010	2009
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including those of directors	**644,925**	528,256
Contribution to retirement benefit schemes, including those of directors	**79,116**	61,704
Total staff costs	**724,041**	589,960
Amortisation of intangible assets (included in cost of sales)	**30,471**	22,686
Amortisation of prepaid lease payments	**7,735**	6,271
Depreciation of property, plant and equipment	**535,946**	473,234
Total depreciation and amortisation	**574,152**	502,191
Auditor's remuneration	**2,115**	2,000
Government grant income	**(20,710)**	(2,534)
Impairment loss on trade receivables (included in administrative expenses)	**4,895**	5,000
Interest income	**(8,120)**	(9,751)
Loss on disposal/write-off of property, plant and equipment (included in other expenses)	**70,065**	11,229
Net foreign exchange losses	**2,712**	5,011
Research and development expenditure recognised as an expense (included in other expenses)	**99,248**	70,787

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated income statement for both years.

10. INCOME TAX EXPENSE

	2010	2009
	HK$'000	HK$'000
The tax charge comprises:		
PRC Enterprise Income Tax		
— current year	174,118	181,058
— under(over)provision in prior years	1,295	(5,961)
— tax credits	—	(47,682)
	175,413	127,415
Deferred taxation *(note 29)*	14,550	15,361
	189,963	142,776

No Hong Kong Profits Tax is payable by the Company nor its subsidiaries incorporated in Hong Kong since they either had no assessable profit or incurred tax losses for both years.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company established before 16 March 2007 are entitled to exemption from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction in tax rate for the next three years. In addition, during the year ended 31 December 2009, pursuant to approvals granted by the relevant tax authority, certain subsidiaries of the Company were granted tax credits, which were mainly derived from the following activities:

a. Tax credits of HK$46,786,000 resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company in the PRC. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority.

b. Tax credits of HK$896,000 resulted from a subsidiary of the Company established in the PRC which has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to a PRC subsidiary of the Company.

There have been no tax credits during the year ended 31 December 2010.

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

10. INCOME TAX EXPENSE *(continued)*

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% starting from 1 January 2008, except those which are under the tax exemption as mentioned above were entitled to the exemption based on the tax rate of 25% or the concessionary tax rate of 15% in the relevant special zone in the PRC up to 2010.

Pursuant to the approvals by the relevant tax authorities, certain subsidiaries of the Company are qualified as advanced technology enterprises for a period of 3 years up to 2010 or 2011. The applicable tax rate for these enterprises is 15% during those years.

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

	2010 ***HK$'000***	2009 *HK$'000*
Profit before tax	**964,774**	1,125,810
Tax at the domestic income tax rate of 25%	**241,194**	281,453
Tax effect of income not taxable for tax purpose	**(1,142)**	(11,901)
Tax effect of expenses not deductible for tax purpose	**23,216**	21,883
Tax effect of share of results of a jointly controlled entity	**(2,183)**	(259)
Tax effect of tax losses not recognised	**3,046**	21,061
Utilisation of tax losses previously not recognised	**(5,671)**	(22,723)
Effect of tax exemption and relief granted to PRC subsidiaries	**(84,342)**	(108,456)
Tax credits granted to PRC subsidiaries	**—**	(47,682)
Under(over)provision in prior years	**1,295**	(5,961)
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries	**14,550**	15,361
Tax charge for the year	**189,963**	142,776

Details of deferred taxation and unused tax losses are set out in note 29.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 14 (2009: 12) directors were as follows:

2010

	Cai Dongchen	Yue Jin	Feng Zhenying	Chak Kin Man	Pan Weidong	Zhao John Huan	Wang Shunlong	Wang Huaiyu	Lu Jianmin	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	—	60	60	60	—	—	15	15	300	66	66	66	150	918
Other emoluments:															
Salaries and other benefits	4,133	508	677	1,855	677	—	—	169	169	—	—	—	—	—	8,188
Contribution to retirement benefit schemes	397	23	31	171	31	—	—	8	8	—	—	—	—	—	669
Performance related incentive payment *(note)*	12,500	—	1,500	2,300	3,000	—	—	1,850	1,850	—	—	—	—	—	23,000
Total emoluments	17,090	531	2,268	4,386	3,768	—	—	2,042	2,042	300	66	66	66	150	32,775

2009

	Cai Dongchen	Yue Jin	Feng Zhenying	Chak Kin Man	Pan Weidong	Zhao John Huan	Wang Shunlong	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	60	—	—	300	66	66	66	150	948
Other emoluments:													
Salaries and other benefits	4,207	419	409	1,855	413	—	—	—	—	—	—	—	7,303
Contribution to retirement benefit schemes	390	24	24	171	24	—	—	—	—	—	—	—	633
Performance related incentive payment (note)	13,000	2,000	2,500	2,500	3,500	—	—	—	—	—	—	—	23,500
Total emoluments	17,657	2,503	2,993	4,586	3,997	—	—	300	66	66	66	150	32,384

Note: The performance related incentive payment is determined by the remuneration committee having regard to the performance of the Group, performance and responsibilities of individuals as well as prevailing market practices.

No directors waived any emoluments in the years ended 31 December 2009 and 2010.

12. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group in 2009 and 2010 were all directors of the Company and details of their emoluments are included in note 11 above.

13. DIVIDEND

	2010	2009
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
2009 final dividend of HK24 cents		
(2009: 2008 final dividend of HK20 cents) per share	**368,391**	306,992

A final dividend of HK24 cents per share (2009: HK24 cents per share) in respect of the year ended 31 December 2010 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2010 is based on the profit for the year attributable to the owners of the Company of HK$751,689,000 (2009: HK$970,739,000) and 1,534,960,661 shares in issue (2009: 1,534,960,661) during the year.

No diluted earnings per share is presented for the years ended 31 December 2009 and 2010 as there were no potential ordinary shares in issue during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January 2009	1,406,104	4,003,253	26,359	32,423	321,464	5,789,603
Additions	21,299	92,168	2,432	13,150	465,175	594,224
Transfers	83,918	193,255	85	—	(277,258)	—
Acquisition of subsidiaries *(note 35)*	150,062	173,959	3,491	4,039	40,757	372,308
Disposal of subsidiaries *(note 36)*	(57,281)	(110,473)	(4,098)	(1,474)	(17,738)	(191,064)
Disposals/write-off	(44)	(71,228)	(203)	(1,687)	—	(73,162)
At 31 December 2009	**1,604,058**	**4,280,934**	**28,066**	**46,451**	**532,400**	**6,491,909**
Exchange adjustments	**60,781**	**158,389**	**1,373**	**1,716**	**21,345**	**243,604**
Additions	**426**	**128,799**	**23,821**	**6,354**	**631,818**	**791,218**
Transfers	**183,300**	**409,207**	**—**	**—**	**(592,507)**	**—**
Disposals/write-off	**(26,454)**	**(240,658)**	**(1,032)**	**(3,449)**	**—**	**(271,593)**
At 31 December 2010	**1,822,111**	**4,736,671**	**52,228**	**51,072**	**593,056**	**7,255,138**
DEPRECIATION						
At 1 January 2009	313,508	1,658,390	14,808	21,588	—	2,008,294
Provided for the year	75,906	385,734	4,772	6,822	—	473,234
Acquisition of subsidiaries *(note 35)*	15,232	45,883	1,182	2,126	—	64,423
Disposal of subsidiaries *(note 36)*	(13,186)	(36,734)	(1,844)	(199)	—	(51,963)
Eliminated on disposals/write-off	(3)	(45,751)	(175)	(1,139)	—	(47,068)
At 31 December 2009	**391,457**	**2,007,522**	**18,743**	**29,198**	**—**	**2,446,920**
Exchange adjustments	**16,262**	**78,994**	**872**	**1,131**	**—**	**97,259**
Provided for the year	**87,384**	**428,477**	**13,940**	**6,145**	**—**	**535,946**
Eliminated on disposals/write-off	**(9,888)**	**(165,528)**	**(249)**	**(2,726)**	**—**	**(178,391)**
At 31 December 2010	**485,215**	**2,349,465**	**33,306**	**33,748**	**—**	**2,901,734**
CARRYING VALUES						
At 31 December 2010	**1,336,896**	**2,387,206**	**18,922**	**17,324**	**593,056**	**4,353,404**
At 31 December 2009	1,212,601	2,273,412	9,323	17,253	532,400	4,044,989

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

The Group *(continued)*

For certain buildings in the PRC, the Group has not yet been granted formal title of ownership. At 31 December 2010, the aggregate carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$63,088,000 (2009: HK$93,754,000). In the opinion of the directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At 1 January 2009, 31 December 2009 and 31 December 2010	**1,581**	**1,005**	**2,586**
DEPRECIATION			
At 1 January 2009	980	1,005	1,985
Provided for the year	214	—	214
At 31 December 2009	**1,194**	**1,005**	**2,199**
Provided for the year	**214**	**—**	**214**
At 31 December 2010	**1,408**	**1,005**	**2,413**
CARRYING VALUES			
At 31 December 2010	**173**	**—**	**173**
At 31 December 2009	387	—	387

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

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

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments with a carrying value of HK$310,949,000 (2009: HK$265,104,000) represent leasehold land in the PRC held under medium-term land use rights. An amount of HK$8,808,000 (2009: HK$7,605,000) is classified under current assets for reporting purpose.

17. INTANGIBLE ASSETS

	Technical know-how	Development costs	Trademarks and certificates	Utility rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2009	41,100	54,764	—	83,766	179,630
Additions	3,166	18,228	—	—	21,394
Write-off	(3,410)	(1,321)	—	—	(4,731)
Acquisition of subsidiaries *(note 35)*	34,469	—	34,193	—	68,662
Disposal of subsidiaries *(note 36)*	(6,104)	—	—	—	(6,104)
At 31 December 2009	**69,221**	**71,671**	**34,193**	**83,766**	**258,851**
Exchange adjustments	**2,815**	**3,291**	**1,207**	**3,050**	**10,363**
Additions	**28,215**	**47,052**	**—**	**2,411**	**77,678**
At 31 December 2010	**100,251**	**122,014**	**35,400**	**89,227**	**346,892**
AMORTISATION					
At 1 January 2009	10,962	9,666	—	69,669	90,297
Provided for the year	3,485	9,500	1,495	8,206	22,686
Eliminated on write-off	(3,410)	(1,321)	—	—	(4,731)
Disposal of subsidiaries *(note 36)*	(3,929)	—	—	—	(3,929)
At 31 December 2009	**7,108**	**17,845**	**1,495**	**77,875**	**104,323**
Exchange adjustments	**460**	**1,093**	**154**	**2,788**	**4,495**
Provided for the year	**8,128**	**15,740**	**3,439**	**3,164**	**30,471**
At 31 December 2010	**15,696**	**34,678**	**5,088**	**83,827**	**139,289**
CARRYING VALUES					
At 31 December 2010	**84,555**	**87,336**	**30,312**	**5,400**	**207,603**
At 31 December 2009	62,113	53,826	32,698	5,891	154,528

17. INTANGIBLE ASSETS *(continued)*

Technical know-how mainly represents techniques and formulae acquired for the development of products and production technology.

Development costs mainly represent costs generated internally for the development of products and production technology.

Trademarks and certificates represent costs incurred in obtaining trademarks and registration certificates for medicines from business combination.

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

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

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

18. GOODWILL

	HK$'000
COST	
At 1 January 2009	106,753
Arising on acquisition of subsidiaries *(note 35)*	39,930
Arising on acquisition of additional interest in a subsidiary	4,160
At 31 December 2009	**150,843**
Exchange adjustments	**5,323**
At 31 December 2010	**156,166**

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

19. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill as set out in note 18 and the goodwill reserve has been allocated to two groups of cash-generating units as follows:

	HK$'000
Business segment of	
— finished drugs ("Unit A")	**81,167**
— antibiotics ("Unit B")	**235,129**
	316,296

During the year ended 31 December 2010, management of the Group determines that there is no impairment of the above-mentioned cash-generating units containing the goodwill. The basis of the recoverable amounts of the cash-generating units and their major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 7% per annum, for Unit A and Unit B, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of these units.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2010	2009
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**19,985**	19,985
Share of post-acquisition profits, net of dividends received or receivable	**8,177**	3,991
Exchange adjustments	**892**	—
	29,054	23,976

At 31 December 2009 and 2010, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

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

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

	2010	2009
	HK$'000	*HK$'000*
Current assets	**51,663**	58,293
Non-current assets	**85,447**	50,751
Current liabilities	**(109,021)**	(71,827)
Non-current liabilities	**—**	(14,205)
Income recognised in profit or loss	**142,898**	128,445
Expenses recognised in profit or loss	**(134,166)**	(127,410)

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2010	2009
	HK$'000	*HK$'000*
Non-current:		
Equity securities listed in the United States	**5,728**	6,065
Unlisted securities	**1,705**	1,705
Total	**7,433**	7,770

The above listed investment is stated at its fair value at the end of the reporting period.

The above unlisted investment represents investment in unlisted securities issued by private entity established in the PRC. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

22. INVENTORIES

	2010	2009
	HK$'000	*HK$'000*
Raw materials	300,053	211,912
Work in progress	340,349	294,331
Finished goods	564,462	472,282
	1,204,864	978,525

23. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	1,090,141	848,251
Less: allowance for doubtful debts	(13,621)	(8,726)
	1,076,520	839,525
Bills receivables	810,838	725,750
	1,887,358	1,565,275
Other receivables	365,436	226,442
	2,252,794	1,791,717

The Group allows a general credit period of up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on invoice date at the end of the reporting period:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	1,022,490	799,918
91 to 180 days	52,499	37,102
181 to 365 days	1,531	2,505
	1,076,520	839,525

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

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

	USD *HK$'000*
As at 31 December 2010	**418,144**
As at 31 December 2009	390,033

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

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$54,030,000 (2009: HK$39,607,000) which are past due (i.e. aged over 90 days) as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

Movements in the allowance for doubtful debts

	2010 ***HK$'000***	2009 *HK$'000*
Balance at beginning of the year	**8,726**	6,012
Impairment loss on trade receivables	**4,895**	5,000
Amounts written-off as uncollectible	**—**	(2,286)
Balance at end of the year	**13,621**	8,726

Bills receivables represent bills on hand. All bills receivables of the Group are aged within 90 days and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

24. RELATED AND CONNECTED PARTIES DISCLOSURES

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

(i) Related and connected parties

Name of company	Nature of transactions/balances	2010 *HK$'000*	2009 *HK$'000*
Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), a fellow subsidiary of the Company wholly-owned by Massive Giant, and its subsidiaries ("the SPG Group")	Purchase of raw materials *(note a)*	—	99,071
	Sales of vitamin C and related products *(note b)*	**5,161**	7,790
	Product processing services *(note c)*	**6,290**	10,328
	Sales of antibiotic products *(note d)*	**13,217**	—
	Sales of finished drugs and related products *(note e)*	**8,548**	—
	Rental expenses *(note f)*	**7,751**	7,662
	Interest expenses on loans from a related company *(note g)*	—	1,662
	Balance due from the SPG Group:		
	— trade receivables *(note h)*	**14,016**	—
	Balance due to the SPG Group:		
	— trade payables *(note h)*	—	829
	— other payables *(note h)*	**740**	7,057

During the year ended 31 December 2010, a facility in the aggregate amount of RMB510,000,000 was made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB300,000,000 and RMB210,000,000, respectively. The facility is a general working capital facility for 3 years from 14 December 2009. As a condition under the facility, Massive Giant has pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. At 31 December 2010, the Group did not utilise the facility.

As at 31 December 2010, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of RMB570,000,000 (2009: RMB630,000,000) granted to the Group. At 31 December 2010, the extent of utilisation by the Group amounted to RMB570,000,000 (2009: RMB630,000,000).

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(i) Related and connected parties *(continued)*

On 18 May 2010 and 30 July 2010, Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo"), a wholly owned subsidiary of the Company, entered into agreements to acquire 20% interest in Yinhu from Shanxi Yinhu Pharmaceutical Co., Ltd. ("Shanxi Yinhu"), the non-controlling interests of Yinhu, for a total consideration of RMB52,800,000 (equivalent HK$60,000,000). Upon completion of the acquisition, Yinhu became a 90% owned subsidiary of the Company.

On 5 November 2010, Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd. ("Zhongrun"), a non-wholly owned subsidiary of the Company, entered into an agreement to acquire 15% interest in Zhongrun Huanbao from the non-controlling interest of Zhongrun Huanbao for a consideration of RMB200,000 (equivalent to HK$232,000).

On 9 March 2009, Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. ("Inner Mongolia Zhongrun"), a wholly-owned subsidiary of the Company, entered into an agreement to acquire 49% interests in Zhongxing Huanbao from the non-controlling interests of Zhongxing Huanbao for a consideration of RMB9,000,000 (equivalent to HK$10,227,273).

On 22 May 2009, the Company entered into an asset swap agreement (the "Asset Swap Agreement") with China Charmaine Pharmaceutical Company Limited ("China Charmaine"), a company wholly-owned by SPG. Pursuant to the Asset Swap Agreement, the Company agreed to transfer its 100% equity interest in a subsidiary, Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd. ("NBP"), to China Charmaine and China Charmaine agreed to transfer its 100% equity interest in Hebei Hong Yuan Chemical Co., Ltd. ("Hong Yuan") to the Company for a consideration of HK$125,000,000. The Asset Swap Agreement and the transactions contemplated thereunder were approved at the extraordinary general meeting of the Company held on 3 July 2009.

On 23 October 2009, Zhongnuo entered into an agreement to dispose of its entire 100% equity interest in Shijiazhuang Pharma Group Zhongchen Pharmaceutical Co., Ltd. ("Zhongchen") to SPG for a consideration of RMB8,000,000 (equivalent to HK$9,091,000).

On 30 November 2009, CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd ("CSPC Cenway"), a 90% owned subsidiary of the Company, entered into an agreement to acquire 100% equity interest in Beijing Cenway Pharmaceutical Technology Research Co., Ltd. ("BJ Cenway") from Cenway (Tianjin) Pharmaceutical Co., Ltd. ("Cenway"), the non-controlling interest of CSPC Cenway, for a consideration of RMB4,477,500 (equivalent to HK$5,088,000).

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(II) Other related parties

Name of company	Nature of transactions/balances	2010 HK$'000	2009 HK$'000
Huarong, a jointly controlled entity of the Group	Purchase of raw materials *(note i)*	**8,593**	56,192
	Provision of utility services by the Group *(note j)*	**17,995**	15,140
	Interest expenses on loan from a jointly controlled entity *(note k)*	**—**	767
	Balance due from Huarong:		
	— dividend receivables	**10,667**	6,122
	— other receivables	**6,007**	6,007
	— trade receivables *(note h)*	**10,090**	5,810

(III) Connected parties

Name of company	Nature of transactions/balances	2010 HK$'000	2009 HK$'000
Guangdong Titan Pharmaceutical Co. Ltd. ("Guangdong Titan"), a company wholly-owned by the non-controlling interest of a subsidiary	Sale of finished goods *(note l)*	**118,442**	86,440
	Balance due from Guangdong Titan		
	— trade receivables *(note h)*	**14,407**	28,283
Shanxi Yinhu	Balance due to Shanxi Yinhu		
	— other payables *(note h)*	**754**	5,022
Cenway	Balance due to Cenway		
	— other payables *(note h)*	**130**	32,427

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(IV) Remuneration of key management personnel

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

	2010	2009
	HK$'000	*HK$'000*
Short-term benefits	31,458	31,103
Post-employment benefits	669	633
	32,127	31,736

Notes:

(a) During the year ended 31 December 2009, the Group purchased chemical products from Hong Yuan as raw materials for production pursuant to an agreement dated 29 November 2007 for a term of three years from 1 January 2008 to 31 December 2010. By entering into the above connected transactions, the Group would benefit from having a reliable source of supply of raw materials from Hong Yuan.

The purchase prices of such products have been reached after arm's length negotiation between the Group and Hong Yuan by reference to market price either on normal commercial terms, or if there is no available comparison, on terms no less favorable than those which may be obtained by the Group from independent third parties.

The extent of these connected purchases did not exceed the limit approved by the shareholders of the Company as set out in the announcement dated 29 November 2007.

As detailed in note 35, the Group entered into the Asset Swap Agreement to acquire 100% equity interest in Hong Yuan from the SPG Group. Subsequent to the acquisition, the similar transactions were no longer accounted for as connected transactions of the Group.

(b) On 13 May 2009, Shijiazhuang Pharma Group Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. ("Weisheng"), a wholly-owned subsidiary of the Company, entered into an agreement with Shijiazhuang Pharma Group Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), a wholly-owned subsidiary of SPG, in relation to the sale of vitamin C and related products for a term of 3 years commencing from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group would be able to maintain and expand the business relationship with Ouyi.

The selling prices of such products have been reached after arm's length negotiation between Weisheng and Ouyi by reference to market price under normal commercial terms and are on terms no less favorable than for independent third parties.

The extent of these connected sales did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

Notes: (continued)

(c) On 13 May 2009, Zhongnuo entered into an agreement with Ouyi and pursuant to which Ouyi shall provide product processing services to Zhongnuo for various cephalosporin powder injection products for a term of 3 years commencing from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group would be able to obtain reliable processing services for the Group's products.

The service fees for the product processing services have been reached after arm's length negotiation between Zhongnuo and Ouyi by reference to market price under normal commercial terms and are on terms no less favorable than for independent third parties. In the absence of reference fees for similar services offered to the independent third parties, the terms and conditions shall be fair and reasonable. The amount of service fees are calculated according to the fee scale as set out in the announcement of the Company dated 13 May 2009.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

(d) On 13 May 2009, Zhongrun, entered into an agreement with Ouyi in relation to the sale of antibiotics products for a term of 3 years commencing from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group would be able to maintain and expand the business relationship with Ouyi.

The selling price of such products have been reached after arm's length negotiation between Zhongrun and Ouyi by reference to market price under normal commercial terms and are on terms no less favorable than for independent third parties.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

(e) On 23 August 2010, Zhongnuo entered into an agreement with Hebei Aipu Pharmaceutical Co., Ltd. ("Aipu"), an indirect non wholly-owned subsidiary of SPG, in relation to the sale of certain pharmaceutical products for a term of 3 years commencing from 23 August 2010 to 22 August 2013. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Aipu.

The selling prices of such products have been reached after arm's length negotiation between Zhongnuo and Aipu by reference to market price under normal commercial terms and are on terms no less favorable than for independent third parties.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 23 August 2010.

(f) On 5 March 2009, Zhongnuo entered into a lease agreement with SPG whereby Zhongnuo leased two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of three years commencing on 5 March 2009 with the monthly rental of RMB427,108.

On 20 July 2002, Zhongnuo entered into another agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised on 1 August 2009 for a term of three years with the monthly rental revising to RMB138,033.

The Group's rental expenses were paid in accordance with the relevant tenancy agreements.

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

Notes: (continued)

(g) The loans were due to SPG which had been fully repaid or settled through disposal of a subsidiary during the year ended 31 December 2009.

(h) At the end of the reporting period, these amounts were aged within one year.

(i) The transactions were carried out with reference to the market prices and in the normal course of business of the Group.

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

(k) Details of the loan are set out in note 28.

(l) On 29 July 2008, Siping City Fine Chemicals Product Co., Ltd. ("Siping"), a non wholly-owned subsidiary of the Company, entered into an agreement with Guangdong Titan in relation to the sales of pharmaceutical intermediate products for a term of three years commencing from 29 July 2008 to 28 July 2011. By entering into the agreement, the Group would be able to maintain the business relationship with Guangdong Titan.

The selling prices of such products have been reached after arm's length negotiation between Siping and Guangdong Titan by reference to market price under normal commercial terms and are on terms no less favorable than for independent third parties.

The extent of these connected sales did not exceed the limit as set out in the announcement of the Company dated 29 July 2008.

25. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances and pledged bank deposits carry interest at market interest rates, ranging from 0.01% to 1.67% (2009: 0.01% to 1.71%) per annum.

As at 31 December 2010, the Group had bank deposits of HK$41,930,000 (2009: HK$50,637,000) which were pledged to banks to secure short-term banking facilities granted to the Group and the deposits are therefore classified as current assets.

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

	THE GROUP		THE COMPANY	
	HKD	USD	HKD	USD
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2010	**14,074**	**37,401**	**14,071**	**509**
As at 31 December 2009	14,595	43,913	9,876	18,135

26. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**773,507**	663,594
Bills payables	**440,647**	357,045
	1,214,154	1,020,639
Other payables	**992,816**	834,016
	2,206,970	1,854,655

Included in other payables are payables for the acquisition of property, plant and equipment of HK$474,651,000 (2009: HK$430,892,000), receipts in advance from customers of HK$105,865,000 (2009: HK$87,759,000), accruals and payables of various nature of HK$412,300,000 (2009: HK$315,365,000).

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	**731,593**	506,728
91 to 180 days	**31,850**	63,293
181 to 365 days	**8,331**	52,140
More than 365 days	**1,733**	41,433
	773,507	663,594

The general credit period on purchases of goods is up to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

All bills payables of the Group are aged within 90 days and not yet due at the end of the reporting period.

27. UNSECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured				
— fixed-rate RMB bank loans	**—**	500,000	**—**	—
— floating-rate RMB bank loans	**894,117**	340,909	**—**	—
— floating-rate HKD bank loans	**635,400**	395,400	**635,400**	395,400
— floating-rate USD bank loans	**—**	331,500	**—**	331,500
	1,529,517	1,567,809	**635,400**	726,900
The above bank loans are repayable as follows:				
Within one year	**323,282**	880,782	**217,400**	312,600
More than one year, but not more than two years	**458,638**	452,482	**164,520**	384,300
More than two years, but not more than five years	**747,597**	234,545	**253,480**	30,000
	1,529,517	1,567,809	**635,400**	726,900
Less: Amounts due within one year shown under current liabilities	**(323,282)**	(880,782)	**(217,400)**	(312,600)
Amounts due after one year	**1,206,235**	687,027	**418,000**	414,300

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

	2010	2009
Effective interest rate:		
Fixed-rate RMB bank loans	**3.51% to 4.78% per annum**	3.51% to 7.56% per annum
Floating-rate RMB bank loans	**3.51% to 5.31% per annum**	4.61% per annum
Floating-rate HKD banks loans	**0.67% to 2.73% per annum**	0.64% to 3.26% per annum
Floating-rate USD banks loans	**2.57% to 2.73% per annum**	2.48% to 2.72% per annum

The floating-rate HKD, RMB and USD bank loans are subject to interest at HIBOR, discounted PRC benchmark rate and LIBOR plus a spread, respectively.

27. UNSECURED BANK LOANS *(continued)*

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

	THE GROUP AND THE COMPANY	
	USD	HKD
	HK$'000	*HK$'000*
As at 31 December 2010	—	**635,400**
As at 31 December 2009	331,500	395,400

At the end of the reporting period, the Group had undrawn loan facilities to the extent of HK$180,000,000 (2009: HK$50,000,000) and HK$247,059,000 (2009: HK$238,636,000) in respect of floating-rate HKD bank loans and fixed-rate RMB bank loans, respectively.

28. LOAN FROM A JOINTLY CONTROLLED ENTITY

The loan due to Huarong was unsecured, interest bearing at the rate of 5.4% per annum and fully repaid during the year ended 31 December 2010.

29. DEFERRED TAXATION

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of HK$14,550,000 (2009: HK$15,361,000) has been provided for the current year in the consolidated financial statements in respect of the temporary differences attributable to such profits. During the year, withholding tax of HK$5,682,000 (2009: Nil) has been paid.

At the end of the reporting period, the Group had unused tax losses of HK$90,742,000 (2009: HK$101,241,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2014.

There was no other significant deferred taxation for the year or at the end of the reporting period.

30. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010	3,000,000,000	300,000

	Number of shares	Share capital *HK$'000*
Issued and fully paid:		
At 1 January 2009, 31 December 2009 and 31 December 2010	1,534,960,661	153,496

31. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme (i.e. 153,812,466 shares). The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

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

31. SHARE OPTION SCHEME *(continued)*

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

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

32. INVESTMENTS IN SUBSIDIARIES

	2010 ***HK$'000***	2009 *HK$'000*
Unlisted investments, at cost	**1,465,164**	1,444,574

Particulars of the Company's subsidiaries as at 31 December 2009 and 2010 are set out in note 42.

33. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and recoverable within twelve months from the end of the reporting period.

34. RESERVES OF THE COMPANY

	Share premium *HK$'000*	**Capital redemption reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2009	1,116,727	316	671,579	1,788,622
Profit for the year	—	—	221,091	221,091
Final dividend for the year ended 31 December 2008	—	—	(306,992)	(306,992)
At 31 December 2009	**1,116,727**	**316**	**585,678**	**1,702,721**
Profit for the year	**—**	**—**	**196,483**	**196,483**
Final dividend for the year ended 31 December 2009	**—**	**—**	**(368,391)**	**(368,391)**
At 31 December 2010	**1,116,727**	**316**	**413,770**	**1,530,813**

35. ACQUISITION OF SUBSIDIARIES

There was no acquisition of subsidiaries during the year ended 31 December 2010.

During the year ended 31 December 2009, the following acquisitions took place:

(i) On 28 April 2009, the Group entered into an agreement to acquire 70% equity interest in Yinhu from an independent third party for a consideration of RMB70,000,000 (equivalent to HK$79,545,000);

(ii) On 22 May 2009, the Group entered into the Asset Swap Agreement with China Charmaine pursuant to which the Group agreed to transfer its 100% equity interest in NBP to China Charmaine and China Charmaine agreed to transfer its 100% equity interest in Hong Yuan to the Group for a consideration of HK$125,000,000;

(iii) On 16 August 2009, the Group entered into an agreement to acquire 90% equity interest in CSPC Cenway from an independent third party for a consideration of RMB148,500,000 (equivalent to HK$168,750,000); and

(iv) On 30 November 2009, the Group entered into an agreement to acquire 100% equity interest in BJ Cenway from Cenway for a consideration of RMB4,478,000 (equivalent to HK$5,088,000).

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

Details of these acquired subsidiaries as set out in note 42.

35. ACQUISITION OF SUBSIDIARIES *(continued)*

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

	CSPC Cenway			Yinhu	Hong Yuan			BJ Cenway	
	Acquiree's carrying amount before combination *HK$'000*	Fair value adjustments *HK$'000*	Fair value *HK$'000*	Acquiree's carrying amount before combination and fair value *HK$'000*	Acquiree's carrying amount before combination *HK$'000*	Fair value adjustments *HK$'000*	Fair value *HK$'000*	Acquiree's carrying amount before combination and fair value *HK$'000*	Total *HK$'000*
Property, plant and equipment	182,152	2,283	184,435	43,464	73,352	4,593	77,945	2,041	307,885
Prepaid lease payments	29,479	10,385	39,864	13,213	7,627	13,292	20,919	—	73,996
Intangible assets	34,280	—	34,280	34,193	189	—	189	—	68,662
Inventories	47,887	—	47,887	20,322	19,051	—	19,051	—	87,260
Trade and other receivables	—	—	—	6,678	35,524	—	35,524	4,992	47,194
Bills receivables	—	—	—	227	47,571	—	47,571	—	47,798
Bank balances and cash	—	—	—	—	3,738	—	3,738	130	3,868
Trade and other payables	—	—	—	(28,497)	(89,976)	—	(89,976)	(25)	(118,498)
Amounts due to connected companies	(119,944)	—	(119,944)	(8,302)	—	—	—	(2,533)	(130,779)
Tax liabilities	—	—	—	—	(1,419)	—	(1,419)	—	(1,419)
Deferred tax liabilities	—	—	—	—	—	(4,472)	(4,472)	—	(4,472)
	173,854	12,668	186,522	81,298	95,657	13,413	109,070	4,605	381,495
Minority interests			(18,653)	(24,389)			—	—	(43,042)
Goodwill			881	22,636			15,930	483	39,930
			168,750	79,545			125,000	5,088	378,383
Total consideration satisfied by:									
Disposal of subsidiaries *(note 36)*			—	—			125,000	—	125,000
Cash			168,750	79,545			—	5,088	253,383
			168,750	79,545			125,000	5,088	378,383
Net cash (outflow) inflow arising on acquisitions:									
Cash consideration paid			(168,750)	(79,545)			—	(5,088)	(253,383)
Bank balances and cash acquired			—	—			3,738	130	3,868
			(168,750)	(79,545)			3,738	(4,958)	(249,515)

35. ACQUISITION OF SUBSIDIARIES *(continued)*

The goodwill arising on acquisitions of CSPC Cenway, Yinhu, Hong Yuan and BJ Cenway is attributable to the anticipated future operating synergies in the Group's business of manufacture and sale of antibiotics and finished drugs products in the PRC after the respective acquisition.

CSPC Cenway, Yinhu, Hong Yuan and BJ Cenway contributed profits of HK$3,009,000, HK$3,216,000, HK$26,604,000 and nil between the respective date of acquisition and 31 December 2009, respectively.

If the acquisitions had been completed on 1 January 2009, the Group's revenue would have been approximately HK$7,178 million and profit would have been approximately HK$1,006 million for the year ended 31 December 2009. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2009, nor is it intended to be a projection of future results.

36. DISPOSAL OF SUBSIDIARIES

There was no disposal of subsidiaries during the year ended 31 December 2010.

During the year ended 31 December 2009, the following disposals took place:

(i) On 20 July 2009, the Group disposed of its entire 100% equity interest in NBP to China Charmaine under the Asset Swap Agreement for a consideration of HK$125,000,000; and

(ii) On 28 December 2009, the Group disposed of its entire 100% equity interest in Zhongchen to SPG for a consideration of RMB8,000,000 (equivalent to HK$9,091,000).

36. DISPOSAL OF SUBSIDIARIES *(continued)*

The net assets of the disposed subsidiaries at the respective date of disposal were as follows:

	NBP *HK$'000*	Zhongchen *HK$'000*	Total *HK$'000*
NET ASSETS DISPOSED OF			
Property, plant and equipment	139,101	—	139,101
Prepaid lease payments	12,100	—	12,100
Intangible assets	2,175	—	2,175
Inventories	8,846	203	9,049
Trade and other receivables	28,931	35	28,966
Bills receivables	—	15	15
Pledged bank deposits	307	—	307
Bank balances and cash	13,988	3,124	17,112
Amounts due (to) from related companies	(72,957)	9,053	(63,904)
Trade and other payables	(21,829)	(3,148)	(24,977)
Loans from a related company	(8,382)	—	(8,382)
	102,280	9,282	111,562
Capital contribution released	(1,599)	—	(1,599)
Gain (loss) on disposal	24,319	(191)	24,128
	125,000	9,091	134,091
Total consideration satisfied by:			
Acquisition of subsidiaries *(note 35)*	125,000	—	125,000
Cash	—	9,091	9,091
	125,000	9,091	134,091
Net cash (outflow) inflow arising on disposal:			
Cash consideration received	—	9,091	9,091
Bank balances and cash disposed of	(13,988)	(3,124)	(17,112)
	(13,988)	5,967	(8,021)

NBP and Zhongchen did not have any significant impact on the Group's results and cash flows in the current and prior periods.

37. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2010	2009
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of land and buildings	**15,392**	13,252

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**11,790**	11,980	**2,170**	1,890
In the second to fifth year inclusive	**6,087**	8,775	**4,218**	472
	17,877	20,755	**6,388**	2,362

Operating lease payments represent rentals payable by the Group for certain of its office, factory properties and staff quarters. Leases are negotiated and rentals are fixed for terms of two to three years.

38. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2010	2009
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— property, plant and equipment	**307,965**	279,693
— intangible assets	**29,635**	29,420
	337,600	309,113

The Company had no capital commitments at the end of the reporting period.

39. MAJOR NON-CASH TRANSACTIONS

There have been no major non-cash transactions during the year ended 31 December 2010.

For the year ended 31 December 2009, as disclosed in note 35, the Group transferred its 100% equity interest in NBP to China Charmaine and China Charmaine transferred its 100% equity interest in Hong Yuan to the Group under the Asset Swap Agreement. The swap also constitutes a significant non-cash transaction.

In addition, an amount of HK$253,000 of sale proceeds on disposal of property, plant and equipment was agreed with the suppliers to set off against trade payables for the same amount for the year ended 31 December 2009.

40. CONTINGENT LIABILITIES

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

On 3 May 2006, the first court meeting was held before a judge of the U.S. District Court for the Eastern District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchaser plaintiff amended its claim and requested that only direct purchasers of the vitamin C who had not entered into any agreements containing arbitration clauses could be part of the class of purchasers it sought to represent.

Submissions concerning whether the direct purchaser case may proceed as a class action were made during the year 2007. On 15 January 2009, plaintiffs and defendants agreed to a new case schedule, which bifurcates liability and damages issues and allows certain liability issues to be determined by the court first. Fact discovery relevant to merits was concluded in October 2008.

The Company has submitted a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of 27 May 2008. The Company and the subsidiary have also submitted motions for summary judgment on liability, which were fully briefed as of 5 February 2010. No decisions have been made on these motions.

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

40. CONTINGENT LIABILITIES *(continued)*

(ii) **THE GROUP**

At 31 December 2010 and 2009, a corporate guarantee of RMB25,000,000 was given by certain subsidiaries of the Group to a bank in the PRC in respect of banking facilities granted to Huarong. An amount of RMB25,000,000 was utilised by Huarong as at 31 December 2010 and 2009.

THE COMPANY

There was no guarantee given by the Company as at 31 December 2010. At 31 December 2009, a corporate guarantee of RMB50,000,000 was given by the Company to a bank in the PRC in respect of banking facilities granted to a subsidiary of the Group. An amount of RMB50,000,000 was utilised by the subsidiary as at 31 December 2009.

41. EMPLOYEE RETIREMENT BENEFIT SCHEMES

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

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

During the year, the contributions made by the Group relating to the above arrangements were HK$79,116,000 (2009: HK$61,704,000), of which HK$676,000 (2009: HK$710,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

42. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2009 and 2010 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	100	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	100	—	Investment holding
Zhongrun	The PRC	Limited liability cooperative joint venture enterprise	RMB513,490,300	81.08	18.21	Manufacture and sale of pharmaceutical products
Inner Mongolia Zhongrun	The PRC	Foreign investment enterprise with limited liability	RMB273,150,000	100	—	Manufacture and sale of pharmaceutical products
Weisheng	The PRC	Foreign investment enterprise with limited liability	US$27,345,500	100	—	Manufacture and sale of pharmaceutical products
Zhongnuo	The PRC	Foreign investment enterprise with limited liability	RMB282,810,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	100	—	Provision of pharmaceutical research and development services
Zhongrun Huanbao	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	99.29 (2009: 84.4)	Sewage treatment
Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB18,000,000	80.42	19.58	Sewage treatment

42. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Shijiazhuang Pharma Group (Inner Mongolia) Zhongkang Sugar Products Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB33,000,000	—	100	Manufacture and sale of pharmaceutical products
Zhongxing Huanbao	The PRC	Foreign investment enterprise with limited liability	RMB15,000,000	—	100	Sewage treatment
Yinhu	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000 (2009: RMB100,000,000)	—	90 (2009: 70)	Manufacture and sale of pharmaceutical products
CSPC Cenway	The PRC	Foreign investment enterprise with limited liability	RMB155,000,000	—	89.36	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Cenway (Inner Mongolia) Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB40,000,000 (2009: RMB20,000,000)	—	94.57	Manufacture and sale of pharmaceutical products
BJ Cenway	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	89.36	Provision of pharmaceutical research and development services
Hong Yuan	The PRC	Foreign investment enterprise with limited liability	RMB10,000,000	100	—	Manufacturing and sale of pharmaceutical products
Shijiazhuang Pharma Group (Shijiazhuang) High Medical Technology Development Co., Ltd.	The PRC	Sino-foreign equity joint venture company	RMB30,000,000	25	57.94	Provision of pharmaceutical research and development services
Siping	The PRC	Sino-foreign equity joint venture company	RMB39,529,435	40	19.86	Manufacture and sale of pharmaceutical products

42. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Unigene Biotechnology Co., Ltd. company	The PRC	Sino-foreign equity joint venture services	US$7,000,000	55	—	Provision of pharmaceutical research and development
Subsidiaries incorporated in 2010						
Shanxi Zhongnuo Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB100,000,000	—	100	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongzhen Pharmaceutical Logistic Company Limited ("Zhongzhen Logistic") *(Note)*	The PRC	Sino-foreign equity joint venture company	RMB50,000,000	—	98.3	Storage, sourcing and distribution

Note: Zhongzhen Logistic, a company newly established during the year, is owned by Zhongrun as to 99% and by SPG as to 1%.

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

43. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, Zhongnuo and Yinhu entered into a sale and purchase agreement with Zhongchen in relation to the sale of certain finished pharmaceutical products for a term of 3 years commencing on 1 January 2011 and expiring on 31 December 2013. Zhongchen is a subsidiary of SPG, thus, the transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details are set out in the announcement of the Company dated 10 January 2011.

Financial Summary

RESULTS

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	3,538,754	4,986,059	6,829,995	7,031,601	**7,774,424**
Cost of sales	(2,925,429)	(3,449,641)	(4,548,661)	(4,764,308)	**(5,500,837)**
Gross profit	613,325	1,536,418	2,281,334	2,267,293	**2,273,587**
Other income	34,814	27,278	42,834	49,482	**71,121**
Selling and distribution expenses	(232,511)	(379,203)	(470,787)	(587,842)	**(520,826)**
Administrative expenses	(308,094)	(471,280)	(514,493)	(461,522)	**(626,163)**
Other expenses	(6,808)	(74,822)	(120,801)	(96,848)	**(177,889)**
Operating profit	100,726	638,391	1,218,087	1,170,563	**1,019,830**
Share of results of a jointly controlled entity	(3,350)	(2,683)	1,442	1,035	**8,732**
Share of results of an associate	—	—	1,362	—	**—**
Net gain on disposal of subsidiaries	—	—	—	24,128	**—**
Gain on termination of a derivative financial instrument	—	—	6,851	—	**—**
Change in fair value of a derivative financial instrument	—	(551)	—	—	**—**
Impairment loss on an available-for-sale investment	—	—	(10,362)	—	**—**
Finance costs	(95,776)	(112,809)	(109,367)	(69,916)	**(63,788)**
Profit before tax	1,600	522,348	1,108,013	1,125,810	**964,774**
Income tax credit (expense)	13,763	(45,569)	(160,983)	(142,776)	**(189,963)**
Profit for the year	15,363	476,779	947,030	983,034	**774,811**
Attributable to:					
Owners of the Company	15,664	477,388	940,560	970,739	**751,689**
Non-controlling interests	(301)	(609)	6,470	12,295	**23,122**
	15,363	476,779	947,030	983,034	**774,811**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share — Basic	1.02	31.04	61.16	63.24	**48.97**

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	At 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	5,273,408	6,458,745	7,903,406	8,957,534	**9,719,190**
Total liabilities	(2,622,574)	(3,087,605)	(3,320,211)	(3,628,071)	**(3,842,750)**
Net assets	2,650,834	3,371,140	4,583,195	5,329,463	**5,876,440**
Equity attributable to owners of the Company	2,641,641	3,352,298	4,497,378	5,160,284	**5,740,509**
Non-controlling interests	9,193	18,842	85,817	169,179	**135,931**
Total equity	2,650,834	3,371,140	4,583,195	5,329,463	**5,876,440**