利君國際醫藥
(控股)有限公司
Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2005

Annual Report

2009

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Wu Qin *(Chairman)*
Mr. Qu Jiguang
Mr. Xie Yunfeng
Mr. Huang Chao
Ms. Sun Xinglai
Mr. Wang Xianjun
Mr. Duan Wei
Ms. Zhang Guifu
Mr. Bao Leyuan
Ms. Gao Shuping

NON-EXECUTIVE DIRECTOR

Mr. Liu Zhiyong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Sze Wing Kin, Pierre

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681 GT, Grand Cayman
KY1-1111, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office 2809, 28th Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Ms. Sun Xinglai

AUDIT COMMITTEE

Mr. Chow Kwok Wai *(Committee Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun *(Committee Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
P.O. Box 705, Butterfield House, 68 Fort Street
George Town, Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Bank of China
Bank of China (Hong Kong) Ltd.
Industrial and Commercial Bank of China
China Construction Bank
China Construction Bank (Asia)
China Merchants Bank
China Minsheng Banking Corp., Ltd.
China CITIC Bank
Hang Seng Bank
CITIC Ka Wah Bank
Banks of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Shijiazhuang City Commercial Bank

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

PricewaterhouseCoopers

WEBSITE

http://www.lijun.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Lijin International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

1. RESULTS AND DIVIDEND PAYMENT

In 2009, under the major background of global financial difficulties brought by global financial crisis, the Group was able to overcome the difficulties, seized the opportunities, expanded continuously the scale of selling dominant and competitive products, increased its market share, accelerated the innovation of products and technology and reduced operating costs. Hence, the Group's operation results had achieved its best since its listing, with the Group's profits achieved a significant growth. During the year, the Group's revenue amounted to HK$1,739,628,000, representing an increase of 9.3% as compared to last year; the operating profit of the Group increased by 112.1% as compared to last year, amounted to HK$280,780,000. Profit attributable to equity holders of the Company increased by 111.6% to HK$216,095,000 as compared to last year.

The Board recommended the payment of a final dividend of HK$0.02 per share. Together with an interim dividend of HK$0.02 per share, total dividends for the year were HK$0.04 per share.

2. REVIEW OF OPERATING RESULTS

(1) Product marketing

1. By further optimizing the product and sales structure of intravenous infusion solutions, we attained a sustainable increase in market share and profitability

In 2009, sales revenue of PP plastic bottle and non-PVC soft bag infusion solution with higher added value representing a ratio of 71% of the Group's total sales revenue of infusion solution, up by 7% over last year. The ratio of soft-package and therapeutic intravenous infusion product to total sales revenue had continued to increase. In 2009, profit of infusion solution products accounted for 68% of the Group's profit. Whilst maintaining and consolidating our high end market of plastic bottle and soft bag infusion solution, a series of products like Ambroxol, Amino Acid, Dextran and Mannitol was gradually forming its own product series through implementing a tailor-made product development and marketing strategy. With our distinct product features, obvious cost competitive strengths, the momentum of brand influence keeps on increasing.

In 2009, while maintaining a growth in our infusion solution product for domestic business, our foreign sales had also achieved satisfactory development. Our 16 categories of product with 30 types of specifications had successfully registered in 11 countries like Mongolia, Vietnam, Uzbekistan and Turkmenistan, and our products were sold in nearly 40 countries and regions in Asia, Africa and Europe with export trading value of US$5,880,000.

2. **REVIEW OF OPERATING RESULTS** *(continued)*

(1) **Product marketing** *(continued)*

2. **Antibiotics preparation product business showed an encouraging surging momentum**

Sales of our leading branded product, Lijunsha, had recorded its best in recent years. Our strategic introduction of the new 20s Lijunsha tablet specifications in September 2009, was successfully launched and achieved cash sales of RMB75,420,000 in a short period of 4 months. Through stringent control and adopting a series of measures, significant improvement of our 24s Lijunsha tablet was seen after years of serious market pricing issue, and had ensured the on-going healthy development of this major branded product. Settlement of accounts receivables on Lijunsha amounted to over RMB500,000,000, a growth of 10.7% on a year-on-year basis and accounts receivables reduced by RMB57,000,000.

By adopting the "Brand Penetration" and "Conference Marketing" approach and implemented rapid and aggressive strategies for Paiqi series, we focused ourselves in maintaining the hospital, clinic and primary community end-user markets. Sales for the year achieved a breakthrough of over RMB100,000,000 for the first time, with a year-on-year growth of 24.1%, demonstrating a sound momentum. The business of Cephalosporin, Limaixian and Erythroimycin are operating steadily.

3. **Non-antibiotics pharmaceutical products were developing rapidly**

Through our impulsive academic promotion, the settlement of accounts receivables on Dobesilate had exceeded RMB65,000,000, a year-on-year growth of 26.3%. Sales of Lixiding was RMB21,820,000, an increase of 29.3% as compared with last year; batch of new key products like Ambroxol and Gliclazide were forming its economies of scale advantage. The yearly settlement of accounts receivables on general medicines was RMB245,000,000, a year-on-year growth of 6.5%. Out of the State's Essential Drug List which contains 307 products, we have 84 products enlisted.

4. **Sales of OTC products were growing rapidly**

Especially for the new product "Kehao" which can clear lung, ease cough and relieve expectoration, its annual sales represented a year-on-year growth of 59%. Annual sales of Weikoujia VC effervescent tablet represented a year-on-year growth of 102%. The awareness and influence of the new launch product, Lijungai, was improving and was the only calcium product listed in the purchasing catalogue for sports nutrients of General Administration of Sport of China. Sales and receivables settlement of other new products of OTC series showed a relatively rapid growing momentum. Well-planned new influenza drug "Haogan" was launched into the market in the fourth quarter of 2009 and sales in trial selling regions showed relatively encouraging results.

2. **REVIEW OF OPERATING RESULTS** *(continued)*

(2) New product development

It has always been the strategy of the Group to stress the importance in the research and development of new products, continuously pushing forward in improving our technology, techniques and products, and accelerate the commercialization of new products and technological achievements.

1. Our corporate quality inspection center and open-end research and development center for new medicines, established in Shijiazhuang, were officially open and are equipped with first-class national advanced facilities. The co-construction of the Shaanxi Provincial Innovative Pharmaceutical Preparation Engineering Technological Center between Xi'an Lijun and The Fourth Military Medical University was completed, creating better laboratory environment for the development of new medicines and new technology advancement.

2. During the year, the Group obtained 6 production permits for its new products and 4 national invention patents. The Company received a total project fund of RMB3,700,000 from the government for the commercialisation of 4 new products. At the same time, Xi'an Lijun and Shijiazhuang No. 4 Pharma, had both obtained the high-tech enterprise certification recognition and shall entitle to enjoy a 15% preferential income tax policy in next three years.

3. As for Arbidol Hydrochloride Capsules (Enerxin) (the newly approved State Class II new medicine), it was certified by the State Key Laboratory regarding its efficacy in inhibiting Influenza A (H1N1) virus with clinically low costs, safe and reliable usability and widely acknowledged by market.

4. By leveraging on our research and development capability, the Group has also undertaken the "Eleventh Five-Year" technology support key project subject of "Safety Research Study on Medicines and Packaging Materials Compatibility" of the State and Hebei Province, and also Shaanxi Province's "Eleventh Five-Year" aggressive program of project development of Lingzhihong Capsule which can lower blood glucose and lipid level, and they are expected to make a breakthrough in 2010.

(3) Brand enhancement

During the 60th anniversary of the founding of the People's Republic of China in 2009, CCTV organized with about one hundred nationwide media to select and invite many nationwide authoritative experts to judge, and "Lijun", being the only western medicine enterprise in the country that was awarded as the "CCTV's 60 Brands in 60 Years". The Group's "Shimen" trademark was recognized as a "Chinese Well-known Trademark" by State Administration of Industry and Commerce, and this is the first well-known trademark in infusion solutions industry in the country. Up to now, the Group owns three "Chinese Well-known Trademarks": Lijunsha, Lijun and Shimen. Lijunsha has been successively awarded "Brand with Highest Recommendation Rate by Chinese Drugstore Attendants" for the third time in a row. Xi'an Lijun was rewarded "2009 Health in China - Outstanding Contribution Award" and Shijiazhuang No. 4 Pharma obtained the title of "Credit Evaluation on Chinese Enterprises - AAA Grade Credit Enterprise".

3. DEVELOPMENT OUTLOOK

Looking forward to 2010, the macroeconomic environment remains critical and the pharmaceutical industry will still be facing intense competition. However, the continuous increase in government's contributions to nationwide medical and public health, and market expansion of pharmaceutical industry due to new medical reform will also become new opportunities under this reform. The Group will grasp the opportunities and cope with challenges as follows:

(I) Continue to intensify the structural adjustment of products, focus on creating and improving the "Three Major Business Segments", and enhance the Group's development vitality and further ability

1. Consolidating and enhancing "Core Business Segment"

Firstly is the intravenous infusion solution business segment. We further expand the production scale of intravenous infusion solution business and improve its quality. The Group will design and set up new production lines of plastic bottle intravenous infusion solutions according to EU standards, continue to maintain our domestic leading advantage of quality and efficiency of intravenous infusion solutions products. The Group will reduce the production and sales of conventional infusion solutions and greatly increase the market share of plastic bottle and soft bag infusion solutions as well as therapeutic infusion solutions where these varieties are with relatively higher added value, achieving sales volume of over 10 million bottles for each of Mannitol infusion and Metronidazole infusion. At the same time, with the advantages of using self-produced raw materials of Hydroxyethyl Starch, the Group will substantially increase the sales of its infusion variety. The sales volume of plastic bottle and soft bag infusion solutions are planned to increase by 15% and 65% respectively over last year.

Secondly is the antibiotics business segment. We should seize the opportunities of our leading competitive products Lijunsha in which is its problems leftover last year were being solved, its increasing market price and growing confidence of our agents. While continuing to expand our market management and control, paying attention to second-tier distributors in conducting thorough "year of end-user" activities, establishing strong distribution network and large end-user network, we will strive to achieve "both price and volume increases" for the 24s Lijunsha, and endeavour to achieve stable growth for 24s and 20s Lijunsha tablets. With the sales revenue of Paiqi Series achieving over RMB100,000,000, we will try our best to expand its sales again in reaching another peak. We target the sales of cephalosporin powder injection to increase significantly during this year, reaching RMB100,000,000 of sales for this antibiotics preparations.

3. **DEVELOPMENT OUTLOOK** *(continued)*

(I) Continue to intensify the structural adjustment of products, focus on creating and improving the "Three Major Business Segments", and enhance the Group's development vitality and further ability *(continued)*

2. Developing and establishing "fast growth business segment"

Firstly is the cardiovascular and cerebrovascular preparations business segment. The target sales revenue is RMB100,000,000 for this year. The Group has devoted tremendous resources to our premier brand in microvascular medicine, "Dobesilate", in recent years. While further strengthen our efforts in the development of hospital market, achieve steady growth in sales, we will expand into OTC market, to achieve stable growth for this "double span" product. At the same time, the target sales revenue of this product, together with that of Lixiding, a new hypertensive medicine, is over RMB100,000,000 for the year, forming another scale sales in cardiovascular and cerebrovascular business segment in the Group.

Secondly is the featured new product, OTC and health care product segment. We will devote special resources to enable Arbidol Hydrochloride Capsules (Enerxin) being listed in national recommended medicines for influenza prevention. Haogan influenza drug will be operated according to the requirements of famous variety and well-known brand, hospital and drugstores act in concert, reinforce marketing and promotion activities, in order to be "Top 10 influenza drug brands" in China. Featured new OTC products, namely Kehao and Weikoujia, will be allocated with more resources in conducting various marketing and promotion activities, aiming at boosting its sales to surpass the RMB10,000,000 mark for each single product as soon as possible. Top quality health care products, Lijungai and Shengtai oral solutions, both of them having high-technology patent and intellectual property right, have been listed on the purchasing catalogue for sports nutrients of General Administration of Sport of China. We will explore new selling methods like setting up image stores plus data base marketing for having more flexibility in marketing and promotion activities, develop loyal consumer group step by step, and therefore achieving significant breakthrough in sales volume. Many new products, including oral intake Zijin soft capsules for improving skin quality, removing speckle and "keeping vitality", Lingzhihong oral liquid for liver protection and lowering blood glucose level, and Easy Kexin for lead expelling and brain protection will be launched into market this year and will become our new growing products.

3. **DEVELOPMENT OUTLOOK** *(continued)*

(I) Continue to intensify the structural adjustment of products, focus on creating and improving the "Three Major Business Segments", and enhance the Group's development vitality and further ability *(continued)*

3. Aggressively expanding "basic business segments"

Firstly is the sales of general medicines business segment. We will aggressively expand our general medicines to primary end-user markets, strength the advantage for key products, tactfully adopt marketing plan for potential products to further expand their sales volume. By leveraging on the advantage of more varieties being listed on essential drug list, we will focus on tendering and supplemental activities; and achieve new growth in sales volume by simplified packing provided directly to primary end-users.

Secondly is the foreign trade business segment. While developing domestic market well, we will also actively expand ourselves into overseas markets. We will expand the registrations of preparations products in foreign countries, widen our export channels in foreign trade, strengthen the market development in Southeast Asia and Eastern Europe, with the objective of reaching a breakthrough in gross foreign trade volume of the Group of over RMB100,000,000.

(II) Accelerating the construction of new projects and research and development of new products, driving the change of economic development pattern, achieving sustainable development of the Group

1. By implementing "Project driven strategy" to promote the upgrading of the Group's business. Shijiazhuang No. 4 Pharma plans to invest the construction of a new modernized preparation plan and supporting logistics center, of which the dual-port soft bag infusion production project will be added to enrich its project in Hebei Province production. It is expected that the production will be ready by the fourth quarter of 2010, and we will manage the setting up of the pharmaceutical ingredients project in producing an annual capacity of 1,000 tonnes of Hydroxyethyl Starch 40. Xi'an Lijun will implement to further expand production in solid preparation, lyophilized powder injection and liquid injection in time to solve the shortage of production capacity in tablets, lyophilized powder injection and liquid injection.

2. With our research institute , post-doctoral workstation in scientific research, national technology center and newly-constructed research & development building in Xi'an and Shijiazhuang for new medicines, we will strengthen our co-operation with scientific research institutions, introduce pioneers in scientific technology and post-doctoral research fellows and establish expert database in science and technology to improve continuously our capabilities in research and development.

3. DEVELOPMENT OUTLOOK *(continued)*

(II) Accelerating the construction of new projects and research and development of new products, driving the change of economic development pattern, achieving sustainable development of the Group *(continued)*

3. Managing our focus in research and development of new products, accelerate application and approval processes of key new products, endeavor to obtain the production permits for its 12 new products, including Compound Metformin Hydrochloride and Glipizide Tablets, Lingzhihong Capsules, Radix Notoginseng Capsules of Radix Panacis Quinquefolii and Compound Mannitol Injection. At the same time, we will perfect the development and application of our three core products including Type 1.1 new drug for curing Alzheimer's disease, Type 1.5 new drug for anti-influenza and gastric mucosal protection functions with the objective of achieving innovative breakthrough this year. We will strive to carry out the application works for the pharmaceutical ingredients of Hydroxyethyl Starch 200, Hydroxyethyl Starch 130, Arbidol Hydrochloride and Cefixime Orally Disintegrating Tablets, Cetirizine Hydrochloride Tablets, and to strengthen the reserve capacity of new products and dosage form in oral preparation, suppository and pharmaceutical ingredients.

(III) Proactively arranging and seeking merger and acquisition projects and manage capital operation decently to further expand the overall scale and capability of the Group

In the future, the Group will proactively seek merger and acquisition projects to achieve its development exponentially. These projects are expected to optimize our product chains, strengthen our marketing network and enhance our focus on key products.

In general, we have many advantages in products and brands, variety of resources and quality assurance, huge marketing network and strong research and development capability. In addition, our operating team has extensive management experience and innovativeness, research and development and investment of new products, launch and establishment of new projects. All of these will bring promising development prospects for the Group in the future.

4. QUARTERLY REPORTING

In order to enable investors and the public to better appraise the position and business performance of the Group in time and effectively, we have adopted a new policy of announcing the unaudited operational updates of the Group on a quarterly basis, with effect from the first quarter of 2010. An announcement which sets out the unaudited operational summary for the Group for the first quarter ended 31 March 2010 is expected to be published before end of April 2010.

In general, we are confident with our operation in 2010 and believe with the utmost dedication throughout the Group, we are optimistic to deliver better results and provide satisfactory returns to all investors. On behalf of the Board, I hereby express our sincere gratitude to our investors and staff for their dedicated support.

Wu Qin
Chairman

Hong Kong, 30 March 2010

REVENUE

For the year ended 31 December 2009, the revenue of the Group amounted to approximately HK$1,739,628,000, representing an increase of 9.3% as compared with HK$1,591,028,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2009 is set out as follows:

	2009		2008		**Change**
	HK$'000	*%*	*HK$'000*	*%*	*%*
Intravenous Infusion Solution	**659,715**	**37.9**	573,583	36.1	15.0
(Including: PP Plastic Bottle Infusion Solution	**268,063**	**15.4**	220,979	13.9	21.3
Non-PVC Soft Bag Infusion Solution)	**154,425**	**8.9**	101,437	6.4	52.2
Antibiotics	**717,195**	**41.2**	669,570	42.1	7.1
(Including: Lijunsha	**438,155**	**25.2**	427,838	26.9	2.4
Paiqi)	**112,201**	**6.4**	90,426	5.7	24.1
Non-antibiotics finished medicines	**261,704**	**15.0**	236,692	14.9	10.6
(Including: Dobesilate	**64,017**	**3.7**	48,268	3.0	32.6
Lixiding	**24,762**	**1.4**	19,152	1.2	29.3
Sales of bulk pharmaceuticals	**97,833**	**5.6**	109,020	6.8	(10.3)
Others	**3,181**	**0.3**	2,163	0.1	47.1
Total	**1,739,628**	**100**	1,591,028	100	9.3

INTRAVENOUS INFUSION SOLUTION

The Group's intravenous infusion solution products were mainly manufactured and sold by Shijiazhuang No. 4 Pharma and there were 3 forms of packing in intravenous infusion products, namely Glasses Bottle, PP Plastic Bottle and Non-PVC Soft Bag.

Revenue of Shijiazhuang No. 4 Pharma for the year ended 31 December 2009 was HK$659,715,000 (2008: HK$573,583,000), representing a growth of 15.0% on a year-to-year basis. Among which, sales of intravenous infusion solution products contributed HK$600,716,000 (2008: HK$506,855,000), representing a growth of 18.5% on a year-to-year basis. Among which, sales of Non-PVC Soft Bag infusion solution was HK$154,425,000, representing 25.7% of the total sales of intravenous infusion solution and an increase of 52.2% as compared with last year; sales of PP Plastic Bottle infusion solution was HK$268,063,000, representing 44.6% of the total sales of intravenous infusion solution and an increase of 21.3% as compared with last year; sales of Glasses Bottle infusion solution was HK$178,228,000, representing 29.7% of the total sales of intravenous infusion solution and a decrease of 3.4% as compared with last year.

During the year, the newly constructed production lines of PP Plastic Bottle infusion solution and Non-PVC Soft Bag infusion solution passed the GMP verification successfully and had duly put into production. At the end of 2009, the annual production capacity of PP Plastic Bottle infusion solution reached 200,000,000 bottles, which was increased by 33.3% as compared with last year; while the annual production capacity of Non-PVC Soft Bag infusion solution reached 160,000,000 bags, which marked a 60.0% increase as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep expanding its production capacity in the PP Plastic Bottle infusion solution and Non-PVC Soft Bag infusion solution production lines. It is believed that the intravenous infusion solution business will be one of the growth drivers of the Group in the coming years.

ANTIBIOTICS

In 2009, sales of Lijunsha increased by 2.4% to HK$438,155,000 (2008: HK$427,838,000), sales of Paiqi increased by 24.1% to HK$112,201,000 (2008: HK$90,426,000) and sales of others antibiotics finished products increased by 10.3% to HK$166,839,000 (2008: HK$151,306,000). Overall sales of antibiotics finished products increased by 7.1% to HK$717,195,000 (2008: HK$669,570,000). Sales of antibiotics had rebounded from the bottom of the second half of last year, sales for the year increased when compared with last year and achieved the expected target.

The reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 42.1% in 2008 to 41.2% in 2009 and sales proportion of Lijunsha accounted for only 25.2% of the total Group's sales in 2009, comparing to 26.9% in 2008.

NON-ANTIBIOTICS FINISHED PRODUCTS

Thanks to the expanded sales network in small-to-medium sized cities and rural areas and the contribution of similar products sales from Shijiazhuang No. 4 Pharma, sales of the Group's non-antibiotics products increased by 10.6% to HK$261,704,000 (2008: HK$236,692,000). Among which, sales of Dobesilate increased by 32.6% to HK$64,017,000 (2008: HK$48,268,000) and sales of Lixiding increased by 29.3% to HK$24,762,000 (2008: 19,152,000).

SALES OF BULK PHARMACEUTICALS

Export sales of bulk pharmaceuticals amounted to HK$97,833,000 in 2009 (2008: HK$109,020,000), representing a decrease of 10.3%, which was mainly due to the spread of global financial crisis and its intensification in 2009 and pushed both domestic and foreign enterprises to operate under very severe environment, resulting greater difficulty in pharmaceuticals exports.

COST OF GOODS SOLD

The Group's cost of goods sold increased by 1.9% from HK$863,496,000 for the year ended 31 December 2008 to HK$880,264,000 for the year ended 31 December 2009. The cost of direct materials, direct labour and other costs represented approximately 71.1%, 6.1% and 22.8% of the total cost of goods sold respectively for the year ended 31 December 2009 while their comparative percentage for 2008 were 74.3%, 6.7% and 19.0% respectively.

GROSS PROFIT MARGIN

Gross profit of the Group in 2009 amounted to HK$859,364,000 (2008: HK$727,532,000), representing a gross profit margin of 49.4%, which was increased by 3.7 percentage point comparing to that of last year (45.7%). This is mainly due to market integration and continuous improvement of business environment which enabled the Group to achieve sales growth with relatively stable sales prices as well as effective cost control resulting from enhanced production management.

SELLING AND MARKETING COSTS

For the year ended 31 December 2009, selling and marketing costs amounted to approximately HK$424,433,000 (2008: HK$389,091,000), which mainly consisted of advertising expenses of approximately HK$62,906,000 (2008: HK$70,589,000), sales commission of approximately HK$200,512,000 (2008: HK$151,162,000), salaries expenses of sales and marketing staff of approximately HK$53,686,000 (2008: HK$55,419,000) and transportation cost of approximately HK$55,184,000 (2008: HK$55,328,000).

The increase of 9.1% in selling and marketing costs in 2009 as compared with that of 2008 was mainly attributable to the Group's boost up in sales commission to promote sales of the Group.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to approximately HK$175,555,000 (2008: HK$221,817,000) for the year ended 31 December 2009 which mainly comprised salaries expenses for the administrative staff of approximately HK$70,193,000 (2008: HK$66,943,000), depreciation and amortisation of approximately HK$45,415,000 (2008: HK$40,675,000) and office and rental expenses of approximately HK$9,152,000 (2008: HK$14,676,000).

The decrease of 20.9% in general and administrative expenses in 2009 as compared with that of 2008 was mainly attributable to the effective control of day-to-day operation and administrative expenses by the management and an one-off expense of HK$15,346,000 for the grant of share options to certain directors and senior management during 2008 (2009: Nil). Also, certain provisions on inventories and receivables made in 2008 had been reversed in 2009, such as reversal of inventories of HK$7,311,000 (2008: write off of HK$6,601,000) and reversal of impairment of receivables of HK$5,479,000 (2008: provision of HK$13,699,000).

OPERATING PROFIT

The Group's operating profit in 2009 increased by 112.1%, amounted to HK$280,780,000 (2008: HK$132,404,000) with its operating profit margin (defined as operating profit divided by total sales) increased from 8.3% to 16.1%.

FINANCE COSTS

The finance costs for the year has decreased to HK$41,114,000 in 2009 (2008: HK$41,222,000). During the year, interest expense on bank borrowings amounted to HK$26,096,000 (2008: HK$27,344,000), finance costs on discount of bills receivables amounted to HK$1,115,000 (2008: HK$6,420,000) and finance costs for convertible bonds amounted to HK$13,703,000 (2008: HK$13,442,000).

INCOME TAX EXPENSE

Both Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") and Shijiazhuang No. 4 Pharma are entitled to a 50% reduction in the enterprise income tax for the years from 2007 to 2009. For the year ended 31 December 2009, the income tax expense amounted to HK$24,803,000 (2008: since the over-provision of enterprise income tax of HK$16,090,000 from 2000 to 2004 has been written back, the overall income tax credit amounted HK$8,914,000).

Also, Xi'an Lijun and Shijiazhuang No. 4 Pharma had both obtained the high-tech enterprise certification recognition during the year and entitled to enjoy a 15% preferential income tax policy for the years from 2010 to 2012.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS FOR THE YEAR

Profit attributable to equity holders of the Company for the year increased by 111.6% to HK$216,095,000 (2008: HK$102,106,000) while net profit margin (profit attributable to equity holders of the Company for the year divided by total sales) increased to 12.4% from 6.4% in 2008.

LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2009, the cash and cash equivalents aggregated to HK$184,964,000 (2008: HK$219,453,000), comprising HK$7,413,000 (2008: HK$40,510,000) of cash and cash equivalents denominated in Hong Kong dollars, HK$176,551,000 (2008: HK$176,030,000) in RMB and HK$1,000,000 (2008: HK$2,913,000) in other currencies.

As at 31 December 2009, the Group has pledged bank deposits amounting to HK$8,662,000 (2008: HK$16,232,000) as guarantee of the bank borrowings, payables for property, plant and equipment and bills payables.

The carrying amounts of the borrowings (including convertible bonds) amounting to HK$513,968,000 (2008: HK$723,112,000) as at 31 December 2009, comprising HK$105,100,000 (2008: HK$159,500,000) of borrowings denominated in Hong Kong dollars and HK$408,868,000 (2008: HK$563,612,000) in RMB.

Gearing ratio (defined as bank borrowings and convertible bonds less pledged bank deposits and cash and cash equivalents divided by total equity less minority interests) decreased from 35.6% as at 31 December 2008 to 19.7% as at 31 December 2009.

Current ratio (defined as current assets divided by current liabilities) increased from 1.04 as at 31 December 2008 to 1.20 as at 31 December 2009.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and HK dollar. The Group is of the opinion that its exposure to foreign exchange rate risk is limited.

PLEDGE OF ASSETS

As at 31 December 2009, the net book amount of the Group's land use right of HK$64,854,000 (2008: HK$55,881,000), the net book amount of the Group's buildings, plant and machineries of HK$356,497,000 (2008: HK$245,190,000) and bank deposits of HK$8,662,000 (2008: HK$16,232,000) were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payables.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any significant contingent liabilities.

EXCHANGE RATE

As at 2009 and 2008, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2008	0.93638
31 December 2008	0.88189
31 December 2009	0.88048

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Wu Qin（吳秦）, aged 57, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Wu has been the chairman of Rejoy Group Limited Liability Company ("Rejoy Group") since October 1998. He has also been the chairman of Xi'an Lijun since November 1999. He is also a director of Prime United Industries Limited ("Prime United"), a controlling shareholder of the Company. Mr. Wu was the general manager of Xi'an Lijun. Mr. Wu has over 30 years of experience in the pharmaceutical industry. He is particularly experienced in the business planning, marketing and enterprise management for pharmaceutical brands. In addition to setting up a number of unique management models, he has also achieved great success in establishing the "Lijunsha" brand, which is one of the prominent "Well-known Trademark in China" in the pharmaceutical industry in the PRC. Mr. Wu graduated from the Open University of Hong Kong with a degree of Master in Business Administration in 2002. He was a deputy to the 10th Standing Committee of the National People's Congress, and was awarded the National Labour Model Award（全國勞動模範）, National May First Labour Medal（全國五一勞動獎章）, International Chinese Commercial Leaders Award（世界華商領袖功勛獎）, Outstanding Chinese Entrepreneurs Award（中國傑出企業領袖）and 100 Most Innovative Chinese Characters Award（中國改革100新鋭人物）. He was also an executive director of Pharmaceutical Administration Association/China Pharmaceutical Association. He also enjoys special subsidy for the year 2002 granted by the State Council of the PRC. He is currently a vice president of Shaanxi Industrial and Economic Federation and Deputy Chairman of the Shaanxi Association of Commerce of the China International Association of Commerce. He is also a senior economist accredited by The Ministry of Personnel of China, the Deputy Chairman of Law and Social Order Committee of the Standing Committee of Shaanxi Province People's Congress and member of Strategies & Advisory Committee of Shaanxi Province.

Mr. Qu Jiguang（曲繼廣）, aged 55, an executive Director, the vice-chairman and the chief executive officer of the Company. Mr. Qu is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No.1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has nearly 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress（河北省人大代表）, Executive Committee Member of All-China Federation of Industry and Commerce（全國工商聯執委）, Vice-Chairman of China Pharmaceutical Industry Association（中國化學製藥協會副會長）, Vice-Chairman of Hebei Provincial Federation of Industry and Commerce（河北省工商聯副主席）, Vice-Chairman of Hebei Provincial Association of Enterprise（河北省企業聯合會副會長）, Vice-Chairman of Hebei Pharmaceutical Industry Association（河北省醫藥行業協會副會長）.

Mr. Xie Yunfeng（謝雲峰）, aged 55, an executive Director and is responsible for finance and supplies of Xi'an Lijun. Mr. Xie has been a director and the deputy general manager of Xi'an Lijun since November 1999. He was a director of Rejoy Group from August 1999 to May 2004. Mr. Xie joined the Group since its establishment in November 1999 and has nearly 30 years of experience in pharmaceutical production. He is also a director of Prime United. Mr. Xie graduated from Party School of the CPC Central Committee majoring in law in 2001. Mr. Xie was awarded the Labour Model of Shaanxi Province and the second session of the honorary title of Outstanding Young Entrepreneurs of Xi'an City.

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Huang Chao（黃朝）, aged 54, an executive Director and is responsible for daily administration and management of Xi'an Lijun. Mr. Huang has been a director of Xi'an Lijun since November 1999 and is currently the general manager of Xi'an Lijun. He had been the deputy chairman of Xi'an Lijun until December 2004 and was the deputy chairman of Rejoy Group from August 1999 to September 2005. Mr. Huang joined the Group since its establishment in November 1999 and has over 30 years of experience in pharmaceutical production. He is a director of Prime United. Mr. Huang graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002, he is also a senior economist accredited by The Ministry of Personnel of China.

Ms. Sun Xinglai（孫幸來）, aged 53, an executive Director and is responsible for public relation of the Group. Ms. Sun has been a director of Xi'an Lijun since May 2004. She was the deputy general manager of Xi'an Lijun during November 1999 to May 2004. Ms. Sun joined the Group since its establishment in 1999. Ms. Sun was a director of Rejoy Group from May 2004 to September 2005 and the chief executive officer of Xi'an Rejoy Technology Investment Co. Ltd. ("Rejoy Technology") from May 2004 to April 2005, and the chairmans of labour unions of Rejoy Group and Xi'an Lijun. Ms. Sun has been the Chairman of Rejoy Technology since November 2008. Ms. Sun graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002.

Mr. Wang Xianjun（王憲軍）, aged 47, an executive director. Mr. Wang has over 20 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang was also an independent non-executive director of Greater China Holding Limited from July 2002 to August 2005, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

Mr. Duan Wei（段偉）, aged 52, an executive Director and is responsible for sales and human resources functions of Shijiazhuang No.4 Pharmaceutical Co., Ltd.. He joined No. 1 Pharma as a supervisor in March 1984 and was later promoted as the supervisor of Shijiazhuang Pharmaceutical Group. Mr. Duan has been an executive director and the vice general manager of Shijiazhuang No. 4 Pharma since March 1999 and he has also been an executive director of New Orient, CPCL and CMP. Mr. Duan graduated from Hebei Central Radio and TV University（河北廣播電視大學）and has ample experiences in sales management.

Ms. Zhang Guifu（張桂馥）, aged 50, an executive Director and is responsible for the finance functions of Shijiazhang No.4 Pharmaceutical Co., Ltd.. Ms. Zhang joined Hebei Yuanzheng Pharmaceutical Company Limited（河北遠征藥業有限公司）as the finance manager in 1991. She has been the finance manager of Shijiazhuang No. 4 Pharma since August 2001 and an executive director of Shijiazhuang No. 4 Pharma since December 2001. She has also been an executive director of New Orient, CPCL and CMP. Ms. Zhang graduated from Hebei Economic Management College（河北經濟管理幹部學院）and has over 27 years of experience in financial control.

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Bao Leyuan（包樂源）, aged 52, an executive Director and is currently a director of Xi'an Rejoy Group Co., Ltd., Xi'an Lijun Fangyuan Pharmaceutical Co., Ltd. and Shaanxi Lijun Modern Traditional Chinese Medicine Co., Ltd.. Mr. Bao joined Xi'an Lijun Pharmaceutical Co., Ltd., a subsidiary of the Company, as a vice chief accountant since 1999, responsible for the asset management functions of the Group. Mr. Bao has been the Chairman of the Supervisory Board of Rejoy Technology since November 2008. Mr. Bao graduated from Xi'an Radio and Television University in 1986. He is also an accountant in China and has ample experience in financial management.

Ms. Gao Shuping（高淑平）, aged 49, an executive Director and is currently a director of New Orient Investments Limited, a direct wholly-owned subsidiary of the Company and a director and vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd., an indirect wholly-owned subsidiary of the Company. Ms. Gao is responsible for implementation of infrastructure projects and land and property management of the Company. Ms. Gao joined Shijiazhuang No. 4 Pharmaceutical Factory in August 1982 and has been the chief officer of technology department, assistant chief engineer and vice general manager. Ms. Gao has been the manager of quality department of Shijiazhuang Pharmaceutical Group Co., Ltd. from January 1998 to January 2002. Ms. Gao took up the post of vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. from January 2002 to December 2004. Afterwards, she served as a director and vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. from December 2004. Ms. Gao has been engaging in the quality management of pharmaceutical production and the technological transformation of pharmaceutical facilities for a long time, and has accumulated profound theoretical and practical experience. Ms. Gao graduated from Hebei Institute of Chemical Technology with a bachelor's degree majored in Chemical Technology. She is a senior engineer accredited by The Ministry of Personnel of the People's Republic of China, and is a practicing pharmacist.

Non-executive director

Mr. Liu Zhiyong（劉志勇）, aged 39, a non-executive Director. He joined China National Technical Import and Export Corporation as a finance personnel in 1992 and became the deputy managing director and an executive director of CNTIC Group International Finance Limited in May 1998. Mr. Liu took up the post of the managing director of Genertec Hong Kong International Capital Limited in July 2003. Mr. Liu is a director of Victory Rainbow Investment Limited, a substantial shareholder of the Company. Mr. Liu graduated from Renmin University of China with a bachelor's degree in Accounting in 1992, obtained a degree of Master in Business Administration of The Hong Kong University of Science and Technology in 2006. He is a member of CICPA.

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wang Yibing（王亦兵）, aged 47, an independent non-executive Director. He graduated from Shenyang Pharmaceutical University, majored in pharmacy（瀋陽藥科大學藥學）. He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce（河北省醫藥行業協會）. Mr Wang joined Heibei Provincial Pharmaceutical Research Centre（河北省藥物研究所）in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine（河北省醫藥管理局綜合經濟處）as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration（河北省食品藥品監督管理局藥品註冊處，藥品安全監管處）. Mr. Wang possesses about 25 years experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun（梁創順）, aged 44, an independent non-executive Director. He is also an independent non-executive director of China National Materials Company Limited (Stock code:1893) and China Metal Recycling (Holdings) Limited (Stock code:773), companies listed on the Stock Exchange. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

Mr. Chow Kwok Wai（周國偉）, aged 43, was appointed as an independent non-executive Director of the Company on 16 October 2005. Mr. Chow has worked in Price Waterhouse, which is now known as PricewaterhouseCoopers and accumulated valuable audit experience there. Mr. Chow received his Bachelor of Social Sciences Degree from the University of Hong Kong in 1990. Mr. Chow is a Fellow Member of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chow has over 15 years of experience in accounting, financial management and corporate finance. Mr. Chow is currently an executive director and a Deputy General Manager and qualified accountant of Silver Grant International Industries Limited (Stock Code: 171) whose shares are listed on the Stock Exchange. He is also a non-executive director of Cinda International Holdings Limited (Stock Code: 111) whose shares are listed on the Stock Exchange.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Sze Wing Kin, Pierre（施永健）, aged 33, is the qualified accountant, company secretary and chief financial officer of the Company. Mr. Sze graduated from The Hong Kong University of Science and Technology with Bachelor of Business Administration (Hons) in Professional Accounting in 1998 and has ten years of working experience in auditing, accounting and taxation in Hong Kong and the mainland of The People's Republic of China. Prior to joining the Company, Mr. Sze has worked for several international audit firms. Mr. Sze is a Fellow Member of the Association of Chartered Certified Accountants and is an Associate Member of the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Board present their report together with the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 9 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2009 is set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 46.

DIVIDENDS

An interim dividend of HK$0.02 per share was declared on 28 August 2009 and paid on 6 November 2009.

The Directors recommend the payment of a final dividend of HK$0.02 per share which, together with the interim dividend of HK$0.02 per share, will result in total dividends of HK$0.04 (2008: HK$0.016) per share for the year ended 31 December 2009. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 28 May 2010 and payable on 25 June 2010 if it is approved.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 18 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 7 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

Reserves of the Company as at 31 December 2009 available for distribution amounted to HK$47,497,000 (2008: HK$53,040,000). The Company's share premium account in the amount of HK$842,176,000 (2008: HK$737,532,000) is also available for distribution to shareholders, subject to the condition that no distribution or dividend may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 116.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the year.

Save for the allotment and issuance of an aggregate of 92,901,109 shares of the Company due to conversion of convertible bond issued on 30 May 2007, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2009.

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Share Option Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares. The offer for grant of options ("Offer") must be taken up within 28 days from the date of Offer, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option will be determined at the higher of (i) the average closing prices of shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer; and (iii) the nominal value of the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of Offer, subject to the terms and conditions of the Share Option Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares in issue as at the date dealings in the shares first commence on the Stock Exchange unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. The total number of shares issued and to be issued upon exercise of all options granted under the Share Option Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

As at 7 August 2008, the Company granted 100,000,000 share options to directors and senior management of the Group, representing about 4.93% of the issued share capital as at the date immediately before the options were granted. The exercise price was HK$0.7. As at 31 December 2009, all of the share options granted remained outstanding. Details are set out in note 17 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Wu Qin	
Mr. Qu Jiguang	
Mr. Xie Yunfeng	
Mr. Huang Chao	
Ms. Sun Xinglai	
Mr. Wang Xianjun	
Mr. Duan Wei	
Mr. Wang Zhizhong	(resigned on 29 July 2009)
Ms. Zhang Guifu	
Mr. Bao Leyuan	
Ms. Gao Shuping	(appointed on 29 July 2009)

Non-executive Director

Mr. Liu Zhiyong

Independent Non-executive Directors

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 86 of the Company's articles of association and the Listing Rules, all directors appointed as an addition to the board shall be subject to re-election by the shareholders at the first general meeting after their appointment. Accordingly, Ms. Gao Shuping will offer herself for re-election as executive Director at the forthcoming annual general meeting.

Pursuant to Article 87 of the Company's articles of association, at every annual general meeting one-third of the directors for the time being (or if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and every retiring director shall be eligible for re-election. Accordingly, Mr. Qu Jiguang, Mr. Duan Wei, Ms. Zhang Guifu and Mr. Wang Yibing will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions", no contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 15-18.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the Scheme disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

EMPLOYEES AND REMUNERATION POLICY

Emoluments of the directors are determined by the Board with reference to the prevailing market practice, the Company's remuneration policy, duties and responsibilities of the Directors within the Group and their contribution to the Group.

During the year, the annual remuneration of Mr. Wang Xianjun decreased from HK$1,500,000 to HK$1,200,000 with effect from 25 September 2009. The adjustment in the remuneration of Mr. Wang was reviewed and approved by the Remuneration Committee.

As at 31 December 2009, the Group had approximately 3,500 employees, most of whom were members of the Group's production team based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs and the emolument policy of employees is based on industry practice.

The remuneration policy of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for year ended 31 December 2009 was HK$216,557,000 (2008: HK$223,364,000). Details of the remuneration of the Directors for the year ended 31 December 2009 are set out in note 31 to the financial statements.

RETIREMENT BENEFIT PLANS

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 8%, respectively, of the employees' basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group also has an early retirement plan. Expenses incurred by the Group in connection with the retirement benefit plans were approximately HK$16,472,000 for the year ended 31 December 2009 (2008: HK$15,327,000).

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 by each of the employee and the Group) on a monthly basis to the fund.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2009, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept 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 Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Beneficial owner *(Note 1)*	22,420,000	1.06%
Mr. Qu Jiguang	Interest in a controlled corporation *(Note 2)*	571,500,000	26.96%
	Beneficial owner *(Note 3)*	7,000,000	0.33%
Mr. Xie Yunfeng	Beneficial owner *(Note 3)*	7,000,000	0.33%
Mr. Huang Chao	Beneficial owner *(Note 3)*	5,000,000	0.24%
Mr. Wang Xianjun	Beneficial owner *(Note 3)*	6,000,000	0.28%
Mr. Duan Wei	Beneficial owner *(Note 3)*	7,000,000	0.33%
Ms. Gao Shuping	Beneficial owner *(Note 3)*	6,000,000	0.28%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES *(continued)*

Long positions in the shares of the Company *(continued)*

Notes:

1. Among the 22,420,000 shares, 7,000,000 shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Wu Qin on 7 August 2008 under the Share Option Scheme.

2. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

3. These shares represent the underlying interests in shares of the Company pursuant to options granted to the respective Directors on 7 August 2008 under the Share Option Scheme.

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 31 December 2009, the Company had been notified of the following interests and short positions, being 5% or more in the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of shares	% of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	641,655,000	30.27%
CPCL *(Note 2)*	Beneficial owner	571,500,000	26.96%
Mr. Qu Jiguang	Interest of controlled corporation *(Note 2)*	571,500,000	26.96%
	Beneficial owner *(Note 3)*	7,000,000	0.33%
Victory Rainbow Investment Limited *(Note 4)*	Beneficial owner	291,500,000	13.75%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES *(continued)*

Long positions in the shares of the Company *(continued)*

Name of Shareholder	**Capacity**	**Number of shares**	**% of the issued share capital of the Company**
Grand Ocean Shipping Company Ltd. *(Note 4)*	Interest of controlled corporation	291,500,000	13.75%
Ms. Huang Meiyan *(Note 4)*	Interest of controlled corporation	291,500,000	13.75%
Mr. Xu Ming *(Note 4)*	Interest of controlled corporation	291,500,000	13.75%

Notes:

(1) Prime United Industries Limited is held as to about 8.86% by Mr. Wu Qin, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director, as to about 84.73% by Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao who jointly hold such shares on trust for 4,479 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao, the executive Directors, are also directors of Prime United Industries Limited. Xi'an Lijun is a company established in the PRC with limited liability and wholly-owned by the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by State-owned Assets Supervision and Administration Commission of the People's Government of Xian.

(2) CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

(3) These shares represent the underlying interest on shares of the Company pursuant to options granted to Mr. Qu Jiguang on 7 August 2008 under the Share Option Scheme.

(4) Victory Rainbow Investment Limited is wholly-owned by Grand Ocean Shipping Company Ltd., a company incorporated in the Republic of Liberia, which in turn is owned as to 50% by Ms. Huang Meiyan and 50% by Mr. Xu Ming. By virtue of Part XV of the SFO, each of Grand Ocean Shipping Company Ltd., Ms. Huang Meiyan and Mr. Xu Ming is deemed to be interested in the shares held by Victory Rainbow Investment Limited.

MANAGEMENT CONTRACTS

Save as disclosed under the heading "Connected transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the Group purchased less than 30% of its total purchases from its 5 largest suppliers and sold less than 30% of its turnover to its 5 largest customers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions

(1) Distribution of the Group's products by Rejoy Technology Group ("Xi'an Rejoy Technology Investment Co., Ltd. and its subsidiaries, including but not limited to Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. and Xi'an Rejoy Packaging Materials Co., Ltd.")

Pursuant to the Master Sale Agreement dated 20 December 2007, the Group agreed to sell and the Rejoy Technology Group agreed to purchase and distribute products of the Group. The Rejoy Technology Group purchases products from the Group and distributes such products to other distributors and end customers. The directors confirmed that the selling prices of the Group's products sold to the Rejoy Technology Group were determined in accordance with the market prices and terms and that the Group charged the Rejoy Technology Group for the products at prices no less favourable than those charged to independent third parties and on terms no less favorable than those the Group can obtain from independent third parties.

Xi'an Rejoy Technology Investment Co. Ltd., the issued share capital of which is held as to 100% by the beneficial shareholders of Prime United Industries Limited, the controlling shareholder of the Company and is accordingly a connected person of the Company.

For the year ended 31 December 2009, the total sales of Group products to the Rejoy Technology Group was RMB6,206,000 (2008: RMB16,569,000), which did not exceed the annual cap of RMB21,500,000 (2008: RMB21,500,000) prescribed for the year ended 31 December 2009 as disclosed in the announcement dated 20 December 2007.

(2) Purchasing of Raw Materials from Rejoy Technology Group

Pursuant to the Master Purchase Agreement dated 20 December 2007, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group. The prices and terms of the Master Purchase Agreement are as per market and shall be no less favourable than market prices and terms.

The directors confirmed that the Group pays Rejoy Technology Group for the raw materials and packaging materials at prices no less favourable than those paid to independent third parties and on terms no less favourable than those the Group can obtain from other comparable independent third parties. For the year ended 31 December 2009, the total purchase of raw materials and packaging materials from the Rejoy Technology Group was RMB2,292,000 (2008: RMB3,398,000), which did not exceed the estimated annual cap of RMB5,000,000 (2008: RMB5,000,000) prescribed for the year ended 31 December 2009 as disclosed in the announcement dated 20 December 2007.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions *(Continued)*

The aforesaid continuing connected transactions have been reviewed by independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the respective annual caps disclosed in previous announcements.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed procedures to the Board of Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date prior to the issue of this annual report, being 30 March 2010, and at all times during the year ended 31 December 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2009.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The 2010 Annual General Meeting of the Company will be held at 11:00 a.m. on 28 May 2010 at Office 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25 May 2010 (Tuesday) to 28 May 2010 (Friday) (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 24 May 2010 (Monday).

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 30 March 2010

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules. During the year, the Company has complied with the applicable Code Provisions set out in the CG Code.

The following summarises the Company's corporate governance practices.

Key Corporate Governance Principles and the Company's Practices

A.1 Board of Directors

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

Four regular board meetings were held for the year ended 31 December 2009 and the attendance was as follows:

		Meetings attended/held	Attendance
Wu Qin		4/4	100%
Qu Jiguang		4/4	100%
Xie Yunfeng		4/4	100%
Huang Chao		4/4	100%
Sun Xinglai		4/4	100%
Wang Xianjun		4/4	100%
Duan Wei		4/4	100%
Wang Zhizhong	(resigned on 29 July 2009)	1/4	25%
Zhang Guifu		4/4	100%
Bao Leyuan		4/4	100%
Gao Shuping	(appointed on 29 July 2009)	2/4	50%
Liu Zhiyong		4/4	100%
Wang Yibing		4/4	100%
Leung Chong Shun		4/4	100%
Chow Kwok Wai		4/4	100%

All directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting.

Notice of at least 14 days were given of a regular board meeting. For all other board meetings, reasonable notice will be given.

All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of minutes of Board meetings were sent to all directors for their comment and record respectively within 3 business days after the board meeting was held.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

A.1 Board of Directors *(Continued)*

The Company has established the policy on obtaining independent professional advice by Directors to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. Minutes of board meetings and meetings of board committee are to be kept by a duly appointed secretary of the meeting and such minutes are open for inspection at any reasonable time and on reasonable notice by any Director.

A.2 Chairman and chief executive officer

The Board appointed Mr. Wu Qin as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

The Board appointed Mr. Qu Jiguang as the Chief Executive Officer, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Board also comprises Independent Non-Executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

The Chairman is responsible for ensuring that Directors receive adequate information, which is complete and reliable, in a timely manner.

A.3 Board composition

The Board comprises ten executive Directors, namely Mr. Wu Qin, Mr. Qu Jiguang, Mr. Xie Yunfeng, Mr. Huang Chao, Ms. Sun Xinglai, Mr. Wang Xianjun, Mr. Duan Wei, Ms. Zhang Guifu, Mr. Bao Leyuan and Ms. Gao Shuping, one non-executive Director, being Mr. Liu Zhiyong, and three independent non-executive Directors, being Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown on pages 15 to 18 under the section headed "Biographical Details of Directors and Senior Management".

There are sufficient numbers of independent non-executive directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

A.3 Board composition *(continued)*

All Directors are expressly identified by categories of executive directors, non-executive director and independent non-executive directors, in all corporate communications that disclose the names of Directors of the Company.

There are no financial, business, family and other material or relevant relationships among members of the board.

A.4 Appointments, re-election and removal

All Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

Also, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Pursuant to Articles 86 and 87 of the Articles of Association, Mr. Qu Jiguang (an executive Director), Mr. Duan Wei (an executive Director), Ms. Zhang Guifu (an executive Director), Ms. Gao Shuping (an executive Director) and Mr. Wang Yibing (an independent non-executive Director) will retire from office by rotation in the forthcoming annual general meeting and being eligible, offer themselves for re-election at the AGM.

Every Director including non-executive director, including those appointed for a specific term, were subject to retirement by rotation at least once every three years.

The Company had not established a Nomination Committee and retained the functions to the Board. The Directors from time to time identify individual suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether he can add value to the management through his contributions in the relevant strategic business areas and if the appointment results in a strong and diverse Board. In 2009, the Board had nominated and appointed Ms. Gao Shuping as executive Director to the Board, with annual remuneration of HK$500,000.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

A.5 Responsibilities of directors

Every newly appointed Director of the Company received an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and ongoing obligations to be observed by a director. In addition, the package includes materials on the operations and business of the Company. The management of the Company conducted briefing on their responsibilities and obligations under the laws and applicable regulations such as Listing Rules and Companies Ordinance as was necessary.

The functions of independent non-executive Directors include but not limited to the following:

(a) participating in board meetings of the Company to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the audit and remuneration committees; and

(d) scrutinising the Company's performance in achieving agreed corporate goals and objectives, monitoring the reporting of performance.

Every Director ensures that he can give sufficient time and attention to the affairs of the Company.

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The Directors have confirmed that there were not any noncompliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2009.

A.6 Supply of and access to information

In respect of regular board and committee meetings, agendas and accompanying board papers were sent in full to all Directors at least 3 days before the intended date of meetings.

The management and the Company Secretary assist the Chairman in establishing the meeting agenda and board papers, providing adequate information in a timely manner to enable the board and committees in making decision to the matter being discussed in the meetings. Each Director may request inclusion of items in the agenda. The Board and each Director may separately and independently access to the issuer's senior management and shall receive prompt response.

Minutes of the Board/committees meetings are kept by the Company Secretary and are open for inspection by Directors.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

B.1 Remuneration of Directors and senior management

The Board has established a Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them are independent non-executive Directors appointed by the Board.

The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain, and motivate a high calibre team which is essential to the success of the Group.

Three meetings had been held for the Remuneration Committee during the year ended 31 December 2009 and the attendance was as follows:

	Meetings attended/held	**Attendance**
Leung Chong Shun	3/3	100%
Wang Yibing	3/3	100%
Chow Kwok Wai	3/3	100%

The functions specified in Code Provision B1.3 (a) to (f) of the CG Code had been included in the Terms of Reference of the Remuneration Committee, which also explains the role and the authority delegated by the Board.

The Remuneration Committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

The Remuneration Committee will make available on request, its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the Remuneration Committee include the following specific duties:

(a) to make recommendations to the board on the issuer's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

B.1 Remuneration of Directors and senior management *(continued)*

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;

(e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) to ensure that no director or any of his associates is involved in deciding his own remuneration. The remuneration committee shall advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under rule 13.68 of the Listing Rules.

The Remuneration Committee will be provided with sufficient resources to discharge its duties.

The following is a summary of the work of the Remuneration Committee during 2009 regarding the remuneration of Directors:

(i) review of the terms of Director's service contract; and

(ii) review of the remuneration of Directors;

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK$180,000 for each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai and HK$60,000 for Mr. Liu Zhiyong, a non-executive Director.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

B.1 Remuneration of Directors and senior management *(continued)*

Remuneration packages of executive Directors comprise fixed and variable components:

(1) Fixed component – base salary; and

(2) Variable component – annual performance bonus.

Fringe benefits include the provident fund, medical insurance and other miscellaneous benefits.

All the Directors are entitled to participate in the Share Option Scheme.

Emoluments of the Directors are determined by the Board with reference to the prevailing market practice, his duties and responsibilities within the Group and his contribution to the Group.

Details of the remuneration of Directors for the year ended 31 December 2009 are set out in the page 107 of the Annual Report.

C.1 Accountability and audit

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects.

Management of the Company provides such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2009, the Directors have:

1. selected suitable accounting policies and applied them consistently;

2. approved adoption of all HKFRSs;

3. made judgments and estimates that are prudent and reasonable; and

4. have prepared the accounts on the going concern basis.

Acknowledgement from the Directors of their responsibility for preparing the accounts has been received.

A statement by the auditors about their reporting responsibilities is included in pages 41-42 of this annual report under the section headed "Independent Auditor's Report".

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

C.1 Accountability and audit *(Continued)*

During the year, the Company has announced its annual results in a timely manner after the end of the relevant period, as laid down in the Listing Rules; and during the year, the Company has issued annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

C.2 Internal controls

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls, etc.. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. During the year, the management had conducted a review of the effectiveness of the internal control system of the Group. Such review also covers adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. The report and findings of the review which has covered all material controls, had been submitted to the Board and follow up plan had been adopted. The review did not find any material deficiencies in the internal control system of the Group.

C.3 Audit Committee

The Board establishes formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Audit Committee established by the Company have clear terms of reference.

All the members of the Audit Committee are independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun.

The functions specified in Code Provision C3.3 (a) to (n) of the CG Code had been included in the terms of reference of the Audit Committee. The Terms of Reference of the Audit Committee also explains the role and the authority delegated by the Board.

Two meetings had been convened by the Audit Committee during the year ended 31 December 2009 and the attendance was as follows:

	Meetings attended/held	**Attendance**
Chow Kwok Wai	2/2	100%
Wang Yibing	2/2	100%
Leung Chong Shun	2/2	100%

Full minutes of audit committee meetings will be kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings will be sent to all members of the committee for their comment and records respectively, within 3 business days after the meeting.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

C.3 Audit Committee *(Continued)*

Members of the Audit Committee of the Company does not comprise any former partner of the Company's existing audit firm.

The terms of reference of the audit committee includes the following duties:

(a) to be primarily responsible for making recommendation to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The audit committee should report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(d) to monitor integrity of financial statements of an issuer and the issuer's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the issuer's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the board, the committee should focus particularly on:

    (i) any changes in accounting policies and practices;

    (ii) major judgmental areas;

    (iii) significant adjustments resulting from audit;

    (iv) the going concern assumptions and any qualifications;

    (v) compliance with accounting standards; and

    (vi) compliance with the Stock Exchange Listing Rules and other legal requirements in relation to financial reporting;

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

C.3 Audit Committee *(Continued)*

(e) In regard to (d) above:

(i) members of the committee must liaise with the issuer's board of directors and senior management and the committee must meet, at least once a year, with the issuer's auditors; and

(ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the issuer's staff responsible for accounting and financial reporting function, compliance officer or auditors;

(f) to review the issuer's financial controls, internal control and risk management systems;

(g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget;

(h) to consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response;

(i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer, and to review and monitor the effectiveness of the internal audit function;

(j) to review the group's financial and accounting policies and practices;

(k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the board on the matters set out in this code provision; and

(n) to consider other topics, as defined by the board.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

C.3 Audit Committee *(Continued)*

The Audit Committee shall make available on request its terms of reference, explaining its role and the authority delegated to it by the board.

The Audit Committee has been provided with sufficient resources to discharge its duties.

PricewaterhouseCoopers had been appointed to be the auditor of the Group. During 2009, total fees of about RMB2,000,000 paid/payable to PricewaterhouseCoopers were wholly related to audit services.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditor of the Group in 2010.

D.1 Delegation by the board

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. There should be a clear division of responsibilities amongst committees and each of them should have a specific terms of reference.

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility to the executive management.

D.2 Board committees

The Board has prescribed sufficiently clear terms of reference for the Audit Committee and the Remuneration Committee.

The terms of reference of the Audit Committee and the Remuneration Committee require the committees to report back to the Board on their decisions or recommendations.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Key Corporate Governance Principles and the Company's Practices *(Continued)*

E.1 Effective communication

In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the chairman of the meeting.

The chairman of the Board will attend the annual general meeting and arrange for the chairman of the Audit and Remuneration Committees or their members to be available to answer questions at the annual general meeting.

E.2 Voting by poll

The chairman of a meeting will ensure disclosure in the Company's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in the Listing Rules such that shareholders are familiar with the detailed procedures for conducting poll.

The chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting will demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting will disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

The Company will count all proxy votes and, except where a poll is required, the chairman of a meeting will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded.

The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

(a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

(b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

F. Directors' and Officers' Liability Insurance

The Company has arranged appropriate directors' and officers' liability insurance to indemnify the Directors and senior staff of the Group for their potential liabilities incurred by them in discharging their duties. The Company reviews the insurance coverage for the Directors and the Group's senior staff on an annual basis.

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To the shareholders of
Lijun International Pharmaceutical (Holding) Co., Ltd.
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 115, which comprise the consolidated and company balance sheets as at 31 December 2009, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

AUDITOR'S RESPONSIBILITY *(continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 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 disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2010

CONSOLIDATED BALANCE SHEET

As at 31 December 2009
(All amounts in HK$ unless otherwise stated)

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Land use rights	6	**209,247**	214,036
Property, plant and equipment	7	**823,174**	792,855
Intangible assets	8	**550,225**	566,440
Deferred income tax assets	10	**17,037**	15,626
Available-for-sale financial assets	11	**147**	146
		1,599,830	1,589,103
Current assets			
Inventories	12	**229,377**	225,783
Trade and bills receivables	13	**408,394**	414,103
Financial assets at fair value through profit or loss	14	**87**	2,608
Prepayments, deposits and other receivables	15	**68,945**	44,165
Pledged bank deposits	16	**8,662**	16,232
Cash and cash equivalents	16	**184,964**	219,453
		900,429	922,344
Total assets		**2,500,259**	2,511,447
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**48,894**	46,959
Reserves	18		
– Proposed final dividend	33	**42,398**	20,270
– Others		**1,533,484**	1,301,615
		1,624,776	1,368,844
Minority interests		**1,044**	945
Total equity		**1,625,820**	1,369,789

CONSOLIDATED BALANCE SHEET

As at 31 December 2009
(All amounts in HK$ unless otherwise stated)

	Note	2009 HK$'000	2008 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	**78,172**	62,428
Convertible bonds	*20*	**–**	132,720
Deferred income tax liabilities	*10*	**28,474**	37,019
Deferred revenue	*21*	**4,657**	4,649
Long-term payables	*22*	**15,189**	15,661
		126,492	252,477
Current liabilities			
Trade and bills payables	*23*	**166,259**	143,046
Advanced receipts from customers		**16,067**	15,978
Accruals and other payables	*24*	**116,577**	195,876
Income tax payable		**13,248**	6,317
Borrowings	*19*	**435,796**	527,964
		747,947	889,181
Total liabilities		**874,439**	1,141,658
Total equity and liabilities		**2,500,259**	2,511,447
Net current assets		**152,482**	33,163
Total assets less current liabilities		**1,752,312**	1,622,266

WU QIN
Director

QU JIGUANG
Director

The accompanying notes are an integral part of these consolidated financial statements..

BALANCE SHEET OF THE COMPANY

As at 31 December 2009
(All amounts in HK$ unless otherwise stated)

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**2,319**	3,060
Investments in subsidiaries and advance to a subsidiary	9	**1,196,095**	1,220,269
		1,198,414	1,223,329
Current assets			
Dividends receivable		**23,566**	39,427
Prepayments, deposits and other receivables	15	**1,056**	1,527
Amounts due from subsidiaries		**–**	18,046
Pledged bank deposits	16	**8,548**	8,542
Cash and cash equivalents	16	**7,714**	40,832
		40,884	108,374
Total assets		**1,239,298**	1,331,703
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**48,894**	46,959
Reserves	18		
– Proposed final dividend	33	**42,398**	20,270
– Others		**1,035,261**	965,016
Total equity		**1,126,553**	1,032,245
LIABILITIES			
Non-current liabilities			
Borrowings	19	**25,000**	39,750
Convertible bonds	20	**–**	132,720
Deferred income tax liabilities		**–**	950
		25,000	173,420
Current liabilities			
Accruals and other payables	24	**2,001**	6,288
Borrowings	19	**61,000**	119,750
Amounts due to subsidiaries		**24,744**	–
		87,745	126,038
Total liabilities		**112,745**	299,458
Total equity and liabilities		**1,239,298**	1,331,703
Net current liabilities		**(46,861)**	(17,664)
Total assets less current liabilities		**1,151,553**	1,205,665

WU QIN
Director

QU JIGUANG
Director

The accompanying notes are an integral part of this balance sheet of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009
(All amounts in HK$ unless otherwise stated)

	Note	**2009** ***HK$'000***	2008 *HK$'000*
Revenue	*25*	**1,739,628**	1,591,028
Cost of sales	*26*	**(880,264)**	(863,496)
Gross profit		**859,364**	727,532
Selling and marketing costs	*26*	**(424,433)**	(389,091)
General and administrative expenses	*26*	**(175,555)**	(221,817)
Other gains – net	*25*	**21,404**	15,780
Operating profit		**280,780**	132,404
Finance income	*27*	**1,331**	2,100
Finance costs	*27*	**(41,114)**	(41,222)
Finance costs – net		**(39,783)**	(39,122)
Profit before income tax		**240,997**	93,282
Income tax (expense)/credit	*28*	**(24,803)**	8,914
Profit for the year		**216,194**	102,196
Profit attributable to:			
Equity holders of the Company		**216,095**	102,106
Minority interest		**99**	90
		216,194	102,196
Earnings per share for profit attributable to the equity holders of the Company (expressed in HK$ per share)			
– Basic	*32*	**0.106**	0.050
– Diluted	*32*	**0.105**	0.050
Dividends	*33*	**82,938**	32,432

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009
(All amounts in HK$ unless otherwise stated)

	2009 *HK$'000*	2008 *HK$'000*
Profit for the year	**216,194**	102,196
Other comprehensive income:		
Currency translation differences	**2,422**	76,131
Total comprehensive income for the year	**218,616**	178,327
Attributable to:		
Equity holders of the Company	**218,517**	178,182
Minority interest	**99**	145
	218,616	178,327

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009
(All amounts in HK$ unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2009	46,959	1,321,885	1,368,844	945	1,369,789
Comprehensive income					
Profit for the year	–	216,095	216,095	99	216,194
Other comprehensive income					
Currency translation differences	77	2,345	2,422	–	2,422
Total comprehensive income	77	218,440	218,517	99	218,616
Transactions with owners					
Issue of shares-Conversion of convertible bonds	1,858	98,714	100,572	–	100,572
Redemption of convertible bonds	–	(2,347)	(2,347)	–	(2,347)
Dividends paid to equity holders of the Company	–	(60,810)	(60,810)	–	(60,810)
Total transactions with owners	1,858	35,557	37,415	–	37,415
Balance at 31 December 2009	48,894	1,575,882	1,624,776	1,044	1,625,820
Balance at 1 January 2008	44,080	1,151,216	1,195,296	800	1,196,096
Comprehensive income					
Profit for the year	–	102,106	102,106	90	102,196
Other comprehensive income					
Currency translation differences	2,732	73,344	76,076	55	76,131
Total comprehensive income	2,732	175,450	178,182	145	178,327
Transactions with owners					
Issue of shares-Conversion of convertible bonds	147	6,164	6,311	–	6,311
Redemption of convertible bonds	–	(1,967)	(1,967)	–	(1,967)
Dividends paid to equity holders of the Company	–	(24,324)	(24,324)	–	(24,324)
Share option scheme-Value of services	–	15,346	15,346	–	15,346
Total transactions with owners	147	(4,781)	(4,634)	–	(4,634)
Balance at 31 December 2008	46,959	1,321,885	1,368,844	945	1,369,789

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009
(All amounts in HK$ unless otherwise stated)

	Note	**2009**	2008
		HK$'000	*HK$'000*
Cash flows from operating activities			
Cash generated from operations	*34(a)*	**282,408**	192,503
Interest paid		**(27,246)**	(33,764)
Income tax paid		**(26,921)**	(16,054)
Net cash generated from operating activities		**228,241**	142,685
Cash flows from investing activities			
Purchase of land use rights		**(83,128)**	(60,277)
Purchase of property, plant and equipment		**(31,145)**	(221,608)
Purchase of intangible assets		**(518)**	–
Proceeds from disposals of property, plant and equipment	*34(b)*	**15,863**	70,992
Purchase of financial assets at fair value through profit or loss		**(74,551)**	(4,294)
Proceeds from sale of financial assets at fair value through profit or loss		**82,272**	987
Proceeds from sale of available-for-sale financial assets		**–**	4,719
Disposal of a subsidiary (cash and cash equivalents disposed)		**–**	(177)
Interest received		**1,331**	2,100
Net cash used in investing activities		**(89,876)**	(207,558)
Cash flows from financing activities			
Redemption of convertible bonds	*20*	**(40,268)**	(32,500)
Proceeds from bank borrowings		**487,711**	517,675
Repayments of bank borrowings		**(565,020)**	(313,126)
Decrease of pledged bank deposits		**5,171**	27,065
Dividends paid to equity shareholders of the Company		**(60,720)**	(25,074)
Net cash (outflows)/inflows from financing activities		**(173,126)**	174,040
Net (decrease)/increase in cash and cash equivalents		**(34,761)**	109,167
Cash and cash equivalents at beginning of the year		**219,453**	98,983
Effect of foreign exchange rate changes		**272**	11,303
Cash and cash equivalents at end of the year		**184,964**	219,453

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") are engaged in the research, development, manufacturing and selling of a wide range of finished medicines and bulk pharmaceutical products to hospitals and distributors. The Group has manufacturing plants in Hebei Province and Shaanxi Province, the People's Republic of China ("PRC"; "Mainland China"), and sells to customers mainly in Mainland China.

The Company is an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 20 December 2005.

These consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 30 March 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting standards and interpretations

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2009:

- HKFRS 7, 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on operating results, financial position or comprehensive income of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting standards and interpretations *(continued)*

(a) New and amended standards adopted by the Group (continued)

- HKAS 1 (revised), "Presentation of financial statements" – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The consolidated financial statements have been compiled as required by the revised standard retrospectively.

- HKFRS 2 (amendment), "Share-based payment" (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and the Company has adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or Company's financial statements.

- In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The amendment does not have a material impact on the Group's or Company's financial statements.

- HKFRS 8, "Operating segments" – effective 1 January 2009. HKFRS 8 replaces HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has adopted HKFRS 8 since 1 January 2009, which did not result in any increase in the number of reportable segments. The segments applied in the previous consolidated financial statements were consistent with the internal reporting provided to the chief operating decision-maker.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting standards and interpretations *(continued)*

(a) New and amended standards adopted by the Group (continued)

- The standards, amendments and interpretations noted below had no impact on the Group's operation results, financial position or comprehensive income.

HKFRS 1 and HKAS 27 Amendment	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKAS 32 Amendment and HKAS 1 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation
HK (IFRIC) 13	Customer Loyalty Programmes
HK (IFRIC) 15	Agreements for the Construction of Real Estate
HK (IFRIC) 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) 18	Transfers of Assets from Customers (applied for transfers of assets after 1 July 2009)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

		Effective date
HKAS 24 Revised	Related Party Disclosures	1 January 2011
HKAS 27 Revised	Consolidated and Separate Financial Statements	1 July 2009
HKAS 32 Amendment	Classification of rights issues	1 February 2010
HKAS 39	Financial Instruments: Recognition and Measurement – Amendments for Eligible hedged items	1 July 2009
HKFRS 1 Amendment	Presentation of Financial Statements	1 January 2010
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions	1 January 2010
HKFRS 3 Revised	Business Combinations	1 July 2009
HKFRS 9	Financial Instruments: Classification and measurement	1 January 2013
HK (IFRIC) 17	Distribution of Non-Cash Assets to Owners	1 July 2009
HK (IFRIC) 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting standards and interpretations *(continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

Those could be relevant to the Group include:

- HK (IFRIC) 17 "Distribution of non-cash assets to owners" (effective on or after 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply HK (IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKAS 27 (revised), "Consolidated and separate financial statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

- HKFRS 2 (amendments), "Group cash-settled share-based payment transactions" (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, "Scope of HKFRS 2", and HK(IFRIC)-Int 11, "HKFRS 2 – Group and treasury share transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting standards and interpretations *(continued)*

(c) Improvements to HKFRS

In addition, "Improvements to HKFRS" were issued in October 2008 and May 2009 respectively, containing numerous technical and conforming amendments to HKFRS, which the HKICPA consider non-urgent but necessary. "Improvements to HKFRS" comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual HKFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010. No material changes to accounting policies were made in 2009 or are expected in 2010 as a result of these amendments. Those could be relevant to be Group include:

- HKAS 1 (amendment), "Presentation of financial statements". The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKAS 36, "Impairment of Assets" (effective from 1 January 2010). The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of HKFRS 8, "Operating segments" (that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of HKFRS 8). The amendment will not result in a material impact on the Group's or the Company's financial statements.

- HKAS 38 (amendment), "Intangible Assets" (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in May 2009 and the Group and Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting standards and interpretations *(continued)*

(c) Improvements to HKFRS (continued)

- HKFRS 5 (amendment), "Measurement of non-current assets (or disposal groups) classified as held for sale". The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or the Company's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between the consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. For disposals to minority interests, differences between the consideration and the relevant share of minority interests are also recorded in equity.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the income statement within "other gains/(losses), net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(b) Transactions and balances *(continued)*

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment

Property, plant and equipments are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Buildings	10-40 years
– Plant and machinery	5-18 years
– Vehicles	5-10 years
– Furniture, fixtures and office equipment	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(Note 2.8)*.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains – net", in the income statement.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for the intended use, the costs are transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Land use rights

All land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights. They are expensed in the income statement on a straight-line basis over the periods of the leases, or when there is impairment, the impairment is expensed in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

– Trademarks	50 years
– Patents	5-10 years

(c) Customer relationships

Customer relationships are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. They represent the fair value attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date are classified as non-current assets. Loans and receivables are classified as trade and other receivables and cash and cash equivalents in the balance sheet *(Note 2.11 and 2.12 respectively)*.

Loans and receivables are carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial assets *(continued)*

2.9.1 Classification *(continued)*

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "Other gains – net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from financial assets.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial assets *(continued)*

2.9.2 Recognition and measurement *(continued)*

Financial assets are stated at fair values. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. However, if the range of reasonable fair value estimate is significant and the probabilities of various estimates cannot be reasonably assessed, such financial assets are carried at cost less accumulated impairment losses.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the asset is impaired. The cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 2.11.

2.10 Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Employee benefits *(continued)*

(b) Pension obligations

(i) Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contributions have been paid.

The contributions are recognised as staff costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Defined benefit plan

Typically, a defined benefit plan defines the amount of pension benefit that an employee will receive on retirement, which usually dependent on one or more factors such as age, years of services and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by management using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Chinese government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement in the period in which they arise.

Past-service costs are recognised immediately in income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Employee benefits *(continued)*

(b) Pension obligations *(continued)*

(iii) Other post–retirement benefits

Some group companies provide post-retirement benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plan.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity) over a specified time period. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Employee benefits *(continued)*

(d) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.21 Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to purchases of land use rights and property, plant and equipment are included in non-current liabilities and recognised in the income statement over the life of depreciable assets by way of a reduced depreciation and amortisation charge.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Processing income is recognised when the services are rendered, by reference to the actual service provided as a proportion of the total services to be provided.

(iii) Rental income is recognised over the terms of the leases on a straight-line basis.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method.

(v) Dividend income is recognised when the right to receive payment is established.

Advances and deposits from customers are recognised as liabilities in the financial statements as advanced receipts from customers, when there are future obligations to provide goods and services. They are derecognised upon sales of goods and provision of services as described above.

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) As a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) As a lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 Dividend distributions

Dividend distributions to the Company's equity holders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's equity holders.

2.27 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency exchange risk

The Group mainly operates in Mainland China, with most of its transactions denominated and settled in RMB, which is the functional currency of the Company and its subsidiaries. The Group is exposed to foreign exchange risk primarily arising from Hong Kong Dollars since certain cash and cash equivalents and borrowings are denominated in Hong Kong Dollars. The Group is also exposed to foreign exchange risk through transactions that are denominated in a currency other than the functional currency of the Company and its subsidiaries.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign currency exchange risk (continued)

The Group manages its foreign currency exchange risks by performing regular review and monitoring its foreign currency exposures. It has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

At 31 December 2009, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's net profit for the year would have been HK$3,817,000 (2008: 5%, HK$9,323,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents, prepayments and other receivables, accruals and other payables, and borrowings.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheets as at fair value through profit or loss. The Group has not hedged its price risk arising from investments in financial assets at fair value through profit or loss.

As the Group's equity investments are publicly traded, the fair value is determined with reference to quoted market prices.

(iii) Cash flow and fair value interest rate risk

Except for pledged bank deposits, bank deposits and cash at bank of HK$184,074,000 as at 31 December 2009 (2008: HK$218,980,000), which carried interest at weighted average interest rate of 0.7% (2008: 1.2%) per annum, the Group has no significant interest-bearing assets.

The Group's interest bearing liabilities are bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At the balance sheet date, if interest rate had been increased/decreased by 0.6 percentage-point and all other variables were held constant, the Group's net profit for the year ended 31 December 2009 would decrease/increase by approximately HK$3,353,000 (2008: 0.6 percentage-point, HK$3,542,000). This relates primarily to interest income from bank deposits and interest expense on bank borrowings.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and bills receivables, and prepayments, and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

Under the ongoing global financial crisis, debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

As at 31 December 2009, 92% of the Group's bank deposits are placed in major financial institutions located in PRC, which management believes are of high credit quality without significant credit risk (2008: 79%). The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers *(Note 13)*.

As at 31 December 2009, out of the total trade and bills receivables, 44% are bank acceptance notes (2008: 33%), of which the credit risks rest with the reputational acceptance banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the acceptance banks.

As at 31 December 2009, majority of trade receivables are with customers having an appropriate credit history. In addition, all of the Group's pledged bank deposits and cash and cash equivalents were placed with major financial institutions in Mainland China and Hong Kong.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities (including contractually committed interest payments) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balance due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
At 31 December 2009					
Borrowings	435,796	34,072	44,100	–	513,968
Interest payments on borrowings	15,169	1,370	2,190	–	18,729
Accounts and bills payables	166,259	–	–	–	166,259
Accruals and other current payables	27,427	–	–	–	27,427
	644,651	35,442	46,290	–	726,383
At 31 December 2008					
Borrowings	527,964	62,428	–	–	590,392
Interest payments on borrowings and convertible bonds	17,528	23,130	–	–	40,658
Convertible bonds	–	132,720	–	–	132,720
Accounts and bills payables	143,046	–	–	–	143,046
Accruals and other current payables	115,770	–	–	–	115,770
	804,308	218,278	–	–	1,022,586

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the Company's shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total equity less minority interests. Net borrowings is calculated as total borrowings and convertible bonds (including current and non-current borrowings) less pledged bank deposits and cash and cash equivalents.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

The gearing ratio was as follows:

	2009	2008
	HK$'000	*HK$'000*
Bank borrowings	**513,968**	590,392
Convertible bonds	**–**	132,720
	513,968	723,112
Less: Pledged bank deposits and cash and cash equivalents	**(193,626)**	(235,685)
Net borrowings	**320,342**	487,427
Total equity less minority interests	**1,624,776**	1,368,844
Gearing ratio	**19.7%**	35.6%

The gearing ratio has been significantly improved as a result of the redemption and conversion of convertible bonds in 2009.

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of 31 December 2009, the Group has the fair value of financial instruments with the amount of HK$ 87,000 (31 December 2008: HK$ 2,608,000). The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit or loss) is based on quoted market prices at the balance sheet date (level 1).

The carrying value less impairment provision of receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful lives of property, plant and equipment, land use rights and intangible assets

The Group's management determines the estimated useful lives for its property, plant and equipment, land use rights and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment, land use right and intangible assets of similar nature and functions, or based on value-in-use calculations or market valuations with reference to the estimated periods that the Group intends to derive future economic benefits from the use of intangible assets. It could change significantly as a result of technical innovations, changed in customer taste and competitor actions in response to severe industry cycles. Management will increase the depreciation or amortisation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. In particular the management has re-estimated and adjusted the useful lives of certain equipment in 2009 (Note 7). After the adjustments, the useful lives of certain equipments are still within the useful lives described in Note 2.5.

(b) Impairment of property, plant and equipment, land use rights and intangible assets (other than goodwill)

Impairment losses for property, plant and equipment, land use rights and intangible assets are recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amounts, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business, are determined with reference to the best information available at each of the balance sheet date. Changing the assumptions selected by the Group's management in assessing impairment, including the discount rates or the operating and growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on 5-year financial budget approved by management and estimated terminal value at the end of the 5-year period. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to changes in market conditions. The Group's management reassesses the estimates at each balance sheet date.

(e) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. These estimates are based on the credit history of its customers and other debtors and current market condition. The Group's management reassesses the provision at each balance sheet date.

(f) Post-employment benefits obligation

The Group's management reassesses the amount of provision for post-employment benefits obligations at each balance sheet date using the projected unit credit method. Under this method, the determination of the present value of post-employment benefits obligation depends on a number of key assumptions like discount rate and resignation rate. Any changes in these assumptions will impact the carrying amount of post-employment benefits obligations.

5. SEGMENT INFORMATION – GROUP

The chief operating decision-maker has been identified as the executive directors. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The board considers the business from product perspective. From a product perspective, management assesses the performance of two product segments, namely intravenous infusion solution and antibiotics and others.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of revenue and profit. This measurement is consistent with that in the annual financial statements.

Unallocated operating loss mainly contributed by corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bill receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. Unallocated assets mainly comprise corporate cash and deferred income tax assets.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise deferred income tax liabilities, corporate borrowings and convertible bonds.

The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated income statement.

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2009 is as follows:

	Intravenous infusion solution	**Antibiotics and others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	659,715	1,079,913	–	1,739,628
Operating profit/(loss) segment results	169,876	122,194	(11,290)	280,780
Finance income	202	1,016	113	1,331
Finance costs	(11,803)	(11,282)	(18,029)	(41,114)
Profit before income tax	158,275	111,928	(29,206)	240,997
Income tax expense	(10,723)	(14,080)	–	(24,803)
Profit for the year	147,552	97,848	(29,206)	216,194

5. **SEGMENT INFORMATION – GROUP** *(continued)*

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2008 is as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	573,583	1,017,445	–	1,591,028
Operating profit/(loss) segment results	113,020	50,745	(31,361)	132,404
Finance income	238	1,488	374	2,100
Finance costs	(11,123)	(17,399)	(12,700)	(41,222)
Profit before income tax	102,135	34,834	(43,687)	93,282
Income tax (expense)/income	(4,809)	13,198	525	8,914
Profit for the year	97,326	48,032	(43,162)	102,196

The segment assets and liabilities at 31 December 2009 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total assets	1,435,431	1,045,192	19,636	2,500,259
Total liabilities	385,241	401,197	88,001	874,439

The segment assets and liabilities at 31 December 2008 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total assets	1,367,351	1,090,135	53,961	2,511,447
Total liabilities	364,093	478,107	299,458	1,141,658

6. LAND USE RIGHTS – GROUP

	2009	2008
	HK'000	*HK'000*
At 1 January		
Cost	**216,392**	69,690
Accumulated amortisation	**(2,356)**	(1,658)
Net book amount	**214,036**	68,032
Year ended 31 December		
Opening net book amount	**214,036**	68,032
Additions	**131**	143,568
Disposals resulting from disposal of a subsidiary	**–**	(4,310)
Amortisation	**(5,259)**	(1,861)
Exchange differences	**339**	8,607
Closing net book amount	**209,247**	214,036
At 31 December		
Cost	**217,158**	216,392
Accumulated amortisation	**(7,911)**	(2,356)
Net book amount	**209,247**	214,036

Land use rights are located in Hebei Province and Shaanxi Province, Mainland China, and are held on leases of 37 to 46 years from the dates of acquisition.

As at 31 December 2009, the Group's land use rights with net book amount of HK$64,854,000 (2008: HK$55,881,000) were pledged as collateral for the Group's bank borrowings *(Note 19)*.

Amortisation of land use rights has been included in general and administrative expenses.

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
At 1 January 2008						
Cost	353,071	496,200	29,842	44,048	110,750	1,033,911
Accumulated depreciation	(67,018)	(212,413)	(15,983)	(18,270)	–	(313,684)
Impairment losses	–	(622)	–	–	–	(622)
Net book amount	286,053	283,165	13,859	25,778	110,750	719,605
Year ended 31 December 2008						
Opening net book amount	286,053	283,165	13,859	25,778	110,750	719,605
Additions	1,113	47,064	9,173	5,471	141,008	203,829
Transfers	22,308	67,794	1,956	–	(92,058)	–
Reclassifications	–	1,760	(437)	(1,323)	–	–
Disposals	(35,152)	(4,087)	(3)	(1,005)	(32,558)	(72,805)
Disposals resulting from disposal of a subsidiary	(17,460)	(17,915)	(135)	(526)	–	(36,036)
Depreciation	(13,417)	(45,626)	(4,573)	(4,634)	–	(68,250)
Exchange differences	17,580	19,009	1,043	1,531	7,349	46,512
Closing net book amount	261,025	351,164	20,883	25,292	134,491	792,855
At 31 December 2008						
Cost	332,335	611,726	42,509	44,363	134,491	1,165,424
Accumulated depreciation	(71,310)	(260,329)	(21,626)	(19,071)	–	(372,336)
Impairment losses	–	(233)	–	–	–	(233)
Net book amount	261,025	351,164	20,883	25,292	134,491	792,855
Year ended 31 December 2009						
Opening net book amount	261,025	351,164	20,883	25,292	134,491	792,855
Additions	2,696	60,878	10,994	6,322	37,386	118,276
Transfers	13,906	116,692	1,563	–	(132,161)	–
Disposals	(8)	(12,673)	(49)	(799)	(1,973)	(15,502)
Depreciation	(13,893)	(47,689)	(5,923)	(5,051)	–	(72,556)
Impairment	–	(1,194)	–	–	–	(1,194)
Exchange differences	422	656	39	41	137	1,295
Closing net book amount	264,148	467,834	27,507	25,805	37,880	823,174
At 31 December 2009						
Cost	348,979	763,970	54,699	49,716	37,880	1,255,244
Accumulated depreciation	(84,831)	(294,709)	(27,192)	(23,911)	–	(430,643)
Impairment losses	–	(1,427)	–	–	–	(1,427)
Net book amount	264,148	467,834	27,507	25,805	37,880	823,174

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

Group *(continued)*

The buildings are located in Hebei Province and Shaanxi Province, Mainland China.

Construction-in-progress represents buildings under construction and plant and machinery pending installation. The buildings under construction are located in Hebei Province and Shaanxi Province, Mainland China.

Certain equipment of Xi'an Lijun Pharmaceutical Co., Ltd., with cost of HK$ 124,450,000 were originally estimated to have a useful life of 7 to 10 years. The management has re-estimated the useful lives of equipments. The Group adjusted estimated useful lives of such equipment from 7-10 years to 10-14 years. These changes in accounting estimate resulted in net profit for the year ended 31 December 2009 being increased by about HK$ 6,312,000.

Depreciation expense recognised in the consolidated income statement is analysed as follows:

	2009	2008
	HK$'000	*HK$'000*
Cost of sales	**47,679**	44,496
Selling and marketing costs	**2,348**	2,021
General and administrative expenses	**22,529**	21,733
	72,556	68,250

As at 31 December 2009, buildings, plant and machinery with net book amount of HK$356,497,000 (2008: HK$245,190,000) were pledged as collateral for the Group's bank borrowings *(Note 19)*.

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

Company

	Furniture, fixtures and office equipment *HK$'000*	Vehicles *HK$'000*	Total *HK$'000*
At 1 January 2008			
Cost	2,374	2,024	4,398
Accumulated depreciation	(338)	(672)	(1,010)
Net book amount	2,036	1,352	3,388
Opening net book amount	2,036	1,352	3,388
Additions	173	–	173
Depreciation	(225)	(401)	(626)
Exchange differences	82	43	125
Closing net book amount	2,066	994	3,060
At 31 December 2008			
Cost	2,712	2,149	4,861
Accumulated depreciation	(646)	(1,155)	(1,801)
Net book amount	2,066	994	3,060
Year ended 31 December 2009			
Opening net book amount	2,066	994	3,060
Depreciation	(305)	(440)	(745)
Exchange differences	3	1	4
Closing net book amount	1,764	555	2,319
At 31 December 2009			
Cost	2,712	2,149	4,861
Accumulated depreciation	(948)	(1,594)	(2,542)
Net book amount	1,764	555	2,319

8. INTANGIBLE ASSETS – GROUP

	Goodwill *HK$'000*	Trademark and patents *HK$'000*	Customer relationships *HK$'000*	Total *HK$'000*
At 1 January 2008				
Cost	429,075	59,501	64,440	553,016
Accumulated amortisation	–	(2,298)	(645)	(2,943)
Net book amount	429,075	57,203	63,795	550,073
Year ended 31 December 2008				
Opening net book amount	429,075	57,203	63,795	550,073
Disposals resulting from disposal of a subsidiary	–	(11)	–	(11)
Amortisation	–	(2,479)	(14,602)	(17,081)
Exchange differences	26,511	3,457	3,491	33,459
Closing net book amount	455,586	58,170	52,684	566,440
At 31 December 2008				
Cost	455,586	63,308	68,421	587,315
Accumulated amortisation	–	(5,138)	(15,737)	(20,875)
Net book amount	455,586	58,170	52,684	566,440
Year ended 31 December 2009				
Opening net book amount	455,586	58,170	52,684	566,440
Addition	–	518	–	518
Amortisation	–	(2,563)	(15,065)	(17,628)
Exchange differences	730	92	73	895
Closing net book amount	456,316	56,217	37,692	550,225
At 31 December 2009				
Cost	456,316	63,926	68,531	588,773
Accumulated amortisation	–	(7,709)	(30,839)	(38,548)
Net book amount	456,316	56,217	37,692	550,225

Amortisation of HK$17,628,000 (2008: HK$17,081,000) is included in general and administrative expenses.

8. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment test of goodwill:

Goodwill is allocated to the intravenous infusion solution business in Mainland China, the cash-generating unit (CGU) identified.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	2009	2008
Gross margin	**48.0%**	46.6%
Growth rate	**3%**	3%
Pre-tax discount rate	**12.0%**	12.3%

Management determined budgeted gross margin based on past performance and its expectations for the market development. The growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the operating segment.

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY

	2009 ***HK$'000***	2008 *HK$'000*
Investments in unlisted shares, at cost	**1,181,668**	1,170,761
Advance to a subsidiary – non-current	**14,427**	49,508
	1,196,095	1,220,269

Advance to a subsidiary represents equity funding provided by the Company and is measured in accordance with the Company's accounting policy for investments in subsidiaries. It is unsecured and non-interest bearing.

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY *(continued)*

The following are details of principal subsidiaries, all of which are unlisted, at 31 December 2009:

Name	Place of incorporation and type of legal entity	Principal activities and place of operations	Particulars of issued and fully paid share capital	Interest held	
				2009	2008
New Orient Investments Limited ("New Orient")	Limited liability company incorporated in Samoa	Investment holding company in Hong Kong	USD1	**100% (Directly held)**	100% (Directly held)
Shijiazhuang No.4 Pharmaceutical Co., Ltd. (No. 4 Pharm")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Heibei Province, Mainland China	RMB110,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Shaanxi Province, Mainland China	RMB280,000,000	**100% (Directly held)**	100% (Directly held)
Shenzhen Lijun Pharmaceutical Co., Ltd. ("Shenzhen Lijun")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Guangdong Province, Mainland China	RMB5,000,000	**68% (Indirectly held)**	68% (Indirectly held)

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2009 (2008: None).

Amounts due from subsidiaries – current

These balances are unsecured, non-interest bearing and without pre-determined repayment terms.

10. DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	2009	2008
	HK$'000	*HK$'000*
Deferred tax assets:		
– to be recovered after more than 12 months	**3,107**	3,706
– to be recovered within 12 months	**13,930**	11,920
	17,037	15,626
Deferred tax liabilities:		
– to be settled after more than 12 months	**25,480**	34,470
– to be settled within 12 months	**2,994**	2,549
	28,474	37,019
Deferred tax liabilities-net	**11,437**	21,393

The gross movements in the deferred income tax account are as follows:

	2009	2008
	HK$'000	*HK$'000*
Beginning of the year	**21,393**	28,446
Credited to the consolidated income statement *(Note 28)*	**(9,035)**	(8,060)
Credited to equity	**(950)**	(500)
Exchange differences	**29**	1,507
End of the year	**11,437**	21,393

10. DEFERRED INCOME TAX – GROUP *(continued)*

The movements in deferred tax assets are as follows:

	Accrual of expenses *HK$'000*	Provision for impairments *HK$'000*	Post-employment benefits *HK$'000*	Total *HK$'000*
At 1 January 2008	3,940	4,867	4,746	13,553
Credited/(charged) to the consolidated income statement	2,175	(137)	(840)	1,198
Exchange differences	309	298	268	875
At 31 December 2008	6,424	5,028	4,174	15,626
Credited/(charged) to the consolidated income statement	3,009	(1,157)	(465)	1,387
Exchange differences	13	7	4	24
At 31 December 2009	9,446	3,878	3,713	17,037

The movements in deferred tax liabilities are as follows:

	Equity component of convertible bonds *HK$'000*	Revaluation of assets on acquisition *HK$'000*	Total *HK$'000*
At 1 January 2008	1,875	40,124	41,999
Credited to the consolidated income statement	(525)	(6,337)	(6,862)
Credited to equity			
– Redemption of convertible bonds	(417)	–	(417)
– Conversion of convertible bonds	(83)	–	(83)
Exchange differences	100	2,282	2,382
At 31 December 2008	950	36,069	37,019
Credited to the consolidated income statement	–	(7,648)	(7,648)
Credited to equity			
– Redemption of convertible bonds	(320)	–	(320)
– Conversion of convertible bonds	(630)	–	(630)
Exchange differences	–	53	53
At 31 December 2009	–	28,474	28,474

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2009	2008
	HK$'000	*HK$'000*
Beginning of the year	**146**	4,303
Disposals	**–**	(4,290)
Exchange differences	**1**	133
End of the year	**147**	146

As at 31 December 2009, available-for-sale financial asset amounting to HK$147,000 (2008: HK$146,000) represents 14.37% equity interest in Xi'an Lijun Transportation Co., Ltd., which is an unlisted company.

The fair value of these unlisted securities as at 31 December 2009 is determined according to the enterprise value calculation based on earnings before interest expense, income taxes, depreciation and amortisation extracted from the unaudited financial results of the investee company for the year ended 31 December 2009, which approximates the net book value.

12. INVENTORIES – GROUP

	2009	2008
	HK$'000	*HK$'000*
Raw materials	**111,313**	104,203
Work in progress	**14,977**	33,978
Finished goods	**103,087**	87,602
	229,377	225,783

The Group reversed of HK$7,311,000 for impairment of inventories during the year ended 31 December 2009 (2008: recorded HK$6,601,000). The provision has been included in cost of sales.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$645,398,000 (2008: HK$640,326,000).

13. TRADE AND BILLS RECEIVABLES – GROUP

	2009	2008
	HK$'000	*HK$'000*
Accounts receivable	**245,527**	298,952
Notes receivable	**181,205**	137,916
Less: provision for impairment	**(18,338)**	(22,765)
	408,394	414,103

The fair values of trade and bills receivables approximate their carrying amounts.

The Group generally requires its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 3 months	**370,110**	317,027
4 to 6 months	**22,107**	68,229
7 to 12 months	**12,831**	33,018
1 to 2 years	**13,741**	16,547
2 to 3 years	**7,413**	1,351
More than 3 years	**530**	696
	426,732	436,868

As at 31 December 2009, past-due trade and bills receivables amounting to approximately HK$56,622,000 (2008: HK$119,841,000) were assessed for impairment and provision of HK$18,338,000 (2008: HK$22,765,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year. Collateral or other credit enhancement held by the Group have been considered when determining the impairment provision.

13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The ageing of individually impaired receivables and an estimate of the fair value of the collateral and other credit enhancement are as follows:

	2009	2008
	HK$'000	*HK$'000*
4 to 6 months	**429**	1,130
7 to 12 months	**285**	11,226
1 to 2 years	**13,741**	16,547
2 to 3 years	**7,413**	1,351
More than 3 years	**530**	696
	22,398	30,950
Less: Expected recovery	**(7,877)**	(15,628)
Impairment	**14,521**	15,322

Movements of provision for impairment of trade receivables are as follows:

	2009	2008
	HK$'000	*HK$'000*
Beginning of the year	**22,765**	10,747
(Reversal of)/Provision for impairment	**(4,460)**	13,699
Receivables written off as uncollectible	**–**	(1,453)
Released resulting from disposal of a subsidiary	**–**	(1,232)
Exchange differences	**33**	1,004
End of the year	**18,338**	22,765

The creation and release of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The Group's trade receivables were denominated in the following currencies:

	2009	2008
	HK$'000	*HK$'000*
RMB	**413,983**	432,237
USD	**12,749**	4,631
	426,732	436,868

The maximum exposure to credit risk at the reporting date is the fair value of the receivables mentioned above. The Group does not hold any collateral as security.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2009	2008
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities – Mainland China	**87**	2,608

The fair values of equity securities are based on their closing bid prices.

Changes in fair value of financial assets at fair value through profit or loss are recorded in "Other gains – net".

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments for purchases of inventories	**31,629**	16,194	**–**	–
Prepayments for purchases of machineries	**7,322**	2,462		
Prepaid advertising costs	**12,741**	6,774	**–**	–
Amounts due from related parties *(Note 35(c))*	**7,956**	6,105	**–**	–
Staff advances	**3,347**	2,543	**–**	–
Other receivables	**5,950**	10,087	**1,056**	1,527
	68,945	44,165	**1,056**	1,527

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Pledged bank deposits	**8,662**	16,232	**8,548**	8,542
Cash at bank and in hand	**184,964**	219,453	**7,714**	40,832
	193,626	235,685	**16,262**	49,374

Pledged bank deposits are pledged for:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings *(Note 19)*	**8,548**	8,542	**8,548**	8,542
Payable for property, plant and equipment *(Note 24)*	**114**	5,274	**–**	–
Bills payable	**–**	2,416	**–**	–
	8,662	16,232	**8,548**	8,542

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash and cash equivalents.

Pledged bank deposits and cash and cash equivalents were denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**176,665**	183,720	**9**	13
HK$	**15,961**	49,052	**15,942**	49,051
USD	**1,000**	2,913	**311**	310
	193,626	235,685	**16,262**	49,374

The interest bearing bank deposits (included in pledged bank deposits and cash and cash equivalents) carried a weighted average interest rate of 0.7% per annum as at 31 December 2009 (2008: 1.2%). These deposits had maturity of 14 days at inception (2008: 3 months), other than those without pre-determined maturity terms.

The Group's pledged bank deposits and cash and cash equivalents denominated in RMB were deposited with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

17. SHARE CAPITAL

	Number of shares *'000*	Ordinary shares *HK$'000*
Authorised		
At 31 December 2008 and 2009 (ordinary shares of HK$0.02 each)	10,000,000	200,000
Issued and fully paid up		
At 1 January 2008 (ordinary shares of HK$0.02 each)	2,019,652	44,080
Issue of shares-conversion of convertible bonds	7,351	147
Currency translation differences	–	2,732
At 31 December 2008 (ordinary shares of HK$0.02 each)	2,027,003	46,959
Issue of shares-conversion of convertible bonds	92,901	1,858
Currency translation differences	–	77
At 31 December 2009 (ordinary shares of HK$0.02 each)	2,119,904	48,894

During the year ended 31 December 2009, convertible bonds amounting to RMB74,000,000 (2008: RMB6,000,000) were converted into 92,901,000 (2008: 7,351,000) ordinary shares at the fixed exchange rate of HK$1 to RMB0.98339 and the fixed conversion price of HK$0.81 per share (2008: HK$0.83) *(Note 20)*.

Share option scheme

The Group has adopted a share option scheme, which will remain in force for 3 years up to August 2011. Share Options may be granted to any directors, employees of the Group. The exercise price is determined by the Board and shall not be less than the higher of (i) the closing price of one share as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer, which shall be a business day; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer, and (iii) the nominal value of the share. The Group has no legal or constructive obligation to repurchase or settle these options in cash.

In August 2008, share options were granted to certain directors and employees to subscribe 100,000,000 shares (fully vested) in the Company at an exercise price of HK$0.7 per share, exercisable from August 2008 to August 2011.

The fair value of the share options granted, determined using the Binomial valuation model, was approximately HK$15,346,000. The significant inputs into the model are share price of HK$0.7 at the grant date, exercise price of HK$0.7, volatility of 43.6%, expected dividends paid out rate of 2.4%, and annual risk-free interest rate of 2.7%. The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of daily share prices of the Company and other comparable companies over the last five years.

17. SHARE CAPITAL *(continued)*

Share option scheme *(continued)*

Share options outstanding have the following expiry date and exercise price:

Expiry date	Exercise price per share	Share options 2009	Share options 2008
	HK$	***'000***	*'000*
6 August 2011	0.7	**100,000**	100,000

18. RESERVES

Group

	Share premium	Capital reserve	Equity component of convertible bonds	Statutory reserve	Share-based payment reserve *(Note 17)*	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	688,092	165,067	8,840	94,880	–	194,337	1,151,216
Issue of shares							
– Conversion of convertible bonds	6,545	–	(381)	–	–	–	6,164
Redemption of convertible bonds	–	–	(1,967)	–	–	–	(1,967)
Employee share option scheme-							
Value of services	–	–	–	–	15,346	–	15,346
Profit for the year	–	–	–	–	–	102,106	102,106
Dividends paid to equity holders of							
the Company	–	–	–	–	–	(24,324)	(24,324)
Transfer to statutory reserve	–	–	–	14,335	–	(14,335)	–
Currency translation differences	42,895	10,199	536	5,862	(62)	13,914	73,344
At 31 December 2008	737,532	175,266	7,028	115,077	15,284	271,698	1,321,885
Issue of shares							
– Conversion of convertible bonds	103,395	–	(4,681)	–	–	–	98,714
Redemption of convertible bonds	–	–	(2,347)	–	–	–	(2,347)
Profit for the year	–	–	–	–	–	216,095	216,095
Dividends paid to equity holders of							
the Company	–	–	–	–	–	(60,810)	(60,810)
Transfer to statutory reserve	–	–	–	24,255	–	(24,255)	–
Currency translation differences	1,249	281	–	223	24	568	2,345
At 31 December 2009	842,176	175,547	–	139,555	15,308	403,296	1,575,882

18. RESERVES *(continued)*

Group *(continued)*

As stipulated by regulations in Mainland China and Articles of Association of subsidiaries established in Mainland China, the subsidiaries established in Mainland China are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to statutory surplus reserve fund before distributing their profit. When the balance of such reserve reaches 50% of each subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

Company

	Share premium *HK$'000*	Capital reserve *HK$'000*	Equity component of convertible bonds *HK$'000*	Share-based payment reserve *(Note 17)* *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2008	688,092	162,370	8,840	–	35,977	895,279
Issue of shares						
– Conversion of convertible bonds	6,545	–	(381)	–	–	6,164
Redemption of convertible bonds	–	–	(1,967)	–	–	(1,967)
Employee share option scheme-Value of services	–	–	–	15,346	–	15,346
Profit for the year	–	–	–	–	37,945	37,945
Dividends paid to equity holders of the Company	–	–	–	–	(24,324)	(24,324)
Currency translation differences	42,895	10,032	536	(62)	3,442	56,843
At 31 December 2008	737,532	172,402	7,028	15,284	53,040	985,286
Issue of shares						
– Conversion of convertible bonds	103,395	–	(4,681)	–	–	98,714
Redemption of convertible bonds	–	–	(2,347)	–	–	(2,347)
Profit for the year	–	–	–	–	55,182	55,182
Dividends paid to equity holders of the Company	–	–	–	–	(60,810)	(60,810)
Currency translation differences	1,249	276	–	24	85	1,634
At 31 December 2009	842,176	172,678	–	15,308	47,497	1,077,659

19. BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current				
Non-current portion of long-term bank borrowings	**78,172**	62,428	**25,000**	39,750
Current				
Current portion of long-term bank borrowings	**83,715**	66,089	**61,000**	54,750
Short-term bank borrowings	**352,081**	461,875	**–**	65,000
	435,796	527,964	**61,000**	119,750
Total borrowings	**513,968**	590,392	**86,000**	159,500
Representing:				
Unsecured	**285,792**	376,964	**70,000**	127,500
Secured (i)	**199,076**	144,732	**6,000**	20,000
Guaranteed (ii)	**29,100**	68,696	**10,000**	12,000
	513,968	590,392	**86,000**	159,500

(i) As at 31 December 2009, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK$64,854,000 (2008: HK$55,881,000), the Group's buildings, plant and machinery with a net book amount of HK$356,497,000 (2008: HK$245,190,000), and the Group's bank deposits of HK$8,548,000 (2008: HK$8,542,000).

(ii) As at 31 December 2009 and 2008, certain of the Group's bank borrowings were guaranteed by Xi'an Lijun Pharmaceutical Co., Ltd., a wholly owned subsidiary.

19. BORROWINGS *(continued)*

As at 31 December 2009, the Group's borrowings were repayable as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**435,796**	527,964	**61,000**	119,750
Between 1 and 2 years	**34,072**	62,428	**–**	39,750
Between 2 and 5 years	**44,100**	–	**25,000**	–
	513,968	590,392	**86,000**	159,500

The borrowings were denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**408,868**	430,892	**–**	–
HK$	**105,100**	159,500	**86,000**	159,500
	513,968	590,392	**86,000**	159,500

The effective interest rates (per annum) at the balance sheet date were as follows:

	2009		2008	
	HK$	***RMB***	*HK$*	*RMB*
Bank borrowings	**3.4%**	**5.7%**	5.1%	6.9%

The fair values of short-term borrowings approximate their carrying amounts. The carrying amounts and fair values of non-current borrowings are as follows:

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings	**78,172**	62,428	**74,490**	59,802	**25,000**	39,750	**24,647**	38,938

19. BORROWINGS *(continued)*

As at 31 December 2009, the Group has the following undrawn borrowing facilities:

	2009	2008
	HK$'000	*HK$'000*
Fixed rate		
– expiring within one year	**79,502**	11,339
– expiring beyond one year	**133,117**	23,359
Floating rates		
– expiring within one year	**–**	–
– expiring beyond one year	**48,383**	48,305
	261,002	83,003

20. CONVERTIBLE BONDS

On 30 May 2007, the Company issued zero-coupon convertible bonds with total principal amount of RMB160,000,000, to be matured on 30 May 2010. The conversion price was initially set as HK$4.15 per share at a fixed exchange rate of HK$1 to RMB0.98339, and such conversion price has been adjusted to HK$0.83 per share effective from 28 August 2007 as a consequence of the Company's share sub-division *(Note 17)*. In 2009, the conversion price has been adjusted to HK$0.81 due to the interim dividend declaration.

Liability component on 30 May 2007 is calculated as follows:

	HK$'000
Face value of convertible bonds issued on 30 May 2007	162,702
Equity component	(11,230)
Liability component on 30 May 2007	151,472
Less: Cost of issue	(2,164)
	149,308

20. CONVERTIBLE BONDS *(continued)*

The amount of convertible bonds recognised in the balance sheet is calculated as follows:

	2009	2008
	HK$'000	*HK$'000*
Beginning of the year	**132,720**	151,135
Interest expenses *(Note 27)*	**13,703**	13,442
Converted into ordinary shares	**(99,942)**	(5,984)
Redemption	**(46,645)**	(35,861)
Exchange differences	**164**	9,988
End of the year	**–**	132,720

On 26 September 2008, 8 June 2009 and 14 December 2009, the Company redeemed and thereafter cancelled convertible bonds with a principal amount of RMB30,000,000 (equivalent to HK$34,225,000), RMB20,000,000 (equivalent to HK$22,679,000) and RMB16,000,000 (equivalent to HK$18,162,624) for a consideration of HK$32,500,000, HK$21,200,000 and HK$19,068,000 respectively. In 2009, amount of RMB74,000,000 (equivalent to HK$83,978,000) convertible bonds have been converted to ordinary share (2008: RMB20,000,000 (equivalent to HK$21,999,000)). As at 31 December 2009, there are no outstanding convertible bonds.

21. DEFERRED REVENUE – GROUP

Government grant received from a municipal government in connection with the Group's development of a high technology pharmaceutical laboratory is deferred and will be recognised in income statements in due course when the development progresses.

22. LONG-TERM PAYABLES – GROUP

Long-term payables represent the present value of the Group's obligations for post-employment benefits. The maturity profile of the long-term payables is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 1 year	**1,997**	3,847
Between 1 to 2 years	**1,361**	2,345
Between 2 to 5 years	**2,651**	4,198
More than 5 years	**11,177**	9,118
	17,186	19,508
Less: Current portion included in current liabilities *(Note 24)*	**(1,997)**	(3,847)
	15,189	15,661

22. LONG-TERM PAYABLES – GROUP *(continued)*

The movements of post-employment benefits recognised in the balance sheet is as follows:

	2009	2008
	HK$'000	*HK$'000*
Beginning of the year	**19,508**	22,659
Total expense, included in staff costs		
– Current service cost	**1,580**	84
– Interest cost	**670**	930
– Actuarial gain	**(798)**	(1,014)
Contribution paid	**(3,801)**	(3,805)
Exchange differences	**27**	654
End of the year	**17,186**	19,508

The above obligations were determined by the Group's management using the projected unit credit method. Discount rate and resignation rate adopted are as follows:

	2009	2008
Discount rate	**4.2%**	3.2%
Annual resignation rate	**2.7%**	2.7%

Compensation for termination benefit is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation by the employee, entered into an agreement with the employee specifying the terms, and advised the individual employee of the specific terms.

Detail of the retirement benefits of the Group are disclosed in Note 30.

23. TRADE AND BILLS PAYABLES – GROUP

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**166,259**	134,996
Bills payable	**–**	8,050
	166,259	143,046

23. TRADE AND BILLS PAYABLES – GROUP *(continued)*

Credit terms for trade and bills payables range from 90 to 180 days. The ageing analysis of the trade and bills payables is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 3 months	**120,694**	108,658
4 to 6 months	**22,723**	18,929
7 to 12 months	**12,325**	6,648
1 to 3 years	**8,424**	6,234
More than 3 years	**2,093**	2,577
	166,259	143,046

The Group's trade and bills payables were denominated in RMB.

24. ACCRUALS AND OTHER PAYABLES

	Group		**Company**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payable to a related party for purchase of land use rights *(Note 35(c))*	**–**	82,930	**–**	–
Payables for purchase of property, plant and equipment	**2,017**	4,527	**–**	–
Accrued sales commission	**49,479**	41,011	**–**	–
Value added tax payable	**14,702**	15,269	**–**	–
Other taxes payables	**7,258**	6,129	**–**	–
Accrued salaries and wages	**8,917**	10,821	**1,579**	1,988
Welfare payables	**8,794**	6,876	**–**	–
Payable for advertising expense	**11,137**	5,753	**–**	–
Current portion of long-term payables *(Note 22)*	**1,997**	3,847	**–**	–
Professional fee payables	**2,275**	4,590	**422**	2,732
Others	**10,001**	14,123	**–**	1,568
	116,577	195,876	**2,001**	6,288

As at 31 December 2009, the Group's bank deposits of HK$114,000 (2008: HK$5,274,000) were pledged as collateral for the payables for purchase of property, plant and equipment.

25. REVENUE AND OTHER GAINS – GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products.

Revenue recognised is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Revenue:		
– Sales of pharmaceutical products	**1,732,327**	1,582,546
– Sales of raw materials and by products	**3,079**	4,645
– Processing income	**1,826**	1,773
– Rental income	**2,396**	2,064
	1,739,628	1,591,028
Other gains – net:		
– Gain on disposal of a subsidiary	**–**	8,420
– Gain on disposal of available-for-sale financial assets	**–**	429
– Gain on disposal of financial assets at fair value through profit or loss	**5,199**	830
– Change in fair value of financial assets at fair value through profit or loss	**–**	(2,116)
– Gain on redemption of convertible bonds	**9,043**	5,745
– Subsidy income	**5,687**	2,442
– Others	**1,475**	30
	21,404	15,780
	1,761,032	1,606,808

26. EXPENSE BY NATURE – GROUP

	2009 HK$'000	2008 HK$'000
Raw materials and consumables used	**636,326**	655,377
Changes in inventories of finished goods and work in progress	**9,072**	(15,051)
Staff costs		
– Wages and salaries	**167,028**	161,764
– Pension costs	**16,472**	15,327
– Welfare expenses	**33,057**	30,927
– Share-based compensation *(Note 17)*	**–**	15,346
Sales commission	**200,512**	151,162
Utility expenses	**74,539**	82,005
Advertising expenses	**62,906**	70,589
Travelling, meeting and entertainment expenses	**39,328**	40,855
Operating leases rental expenses	**5,139**	12,429
Research and development expenses	**9,367**	9,409
Depreciation of property, plant and equipment	**72,556**	68,250
(Reversal of)/Write-down of inventories to their net realisable value	**(7,311)**	6,601
(Reversal of)/Provision for impairment of receivables	**(5,479)**	13,699
Provision for impairment of property, plant and equipment	**1,194**	–
Amortisation of intangible assets	**17,628**	17,081
Amortisation of land use rights	**5,259**	1,861
Auditors' remuneration	**2,270**	3,387
(Gain)/Loss on disposals of property, plant and equipment	**(361)**	1,813
Transportation expenses	**58,172**	56,795
Others	**82,578**	74,778
Total cost of sales, selling and marketing costs and general and administrative expenses	**1,480,252**	1,474,404

27. FINANCE INCOME AND COSTS – GROUP

	2009 **HK$'000**	2008 *HK$'000*
Finance income – Interest income on bank deposits	**1,331**	2,100
Finance costs		
– Interest expense of bank borrowings wholly repayable within five years	**26,096**	27,344
– Discount of bills receivable	**1,115**	6,420
– Convertible bonds *(Note 20)*	**13,703**	13,442
– Net exchange loss/(gain) on bank borrowings	**200**	(5,984)
	41,114	41,222

28. INCOME TAX EXPENSE/(CREDIT) – GROUP

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

The Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

Subsidiaries established and operated in Mainland China are subject to Mainland China Enterprise Income Tax ("EIT") at a rate of 25% for the year ended 31 December 2009 (2008: 25%). Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd., being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd. both are entitled to the new high technology enterprises and enjoy 15% EIT rate for the year from 2010 to 2012.

The amounts of taxation charged/(credited) to the consolidated income statement represent:

	2009 **HK$'000**	2008 *HK$'000*
Current income taxation – Mainland China Enterprise Income Tax	**33,838**	(854)
Deferred taxation *(Note 10)*	**(9,035)**	(8,060)
	24,803	(8,914)

28. INCOME TAX EXPENSE/(CREDIT) – GROUP *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using EIT rate as follows:

	2009 **HK$'000**	2008 HK$'000
Profit before income tax	**240,997**	93,282
Tax calculated at the weighted average domestic tax rate applicable to the subsidiaries	**60,249**	23,321
Tax exemption and reduction	**(34,134)**	(18,589)
Write-back of unnecessary provision	**–**	(16,090)
Expenses not deductible	**394**	2,444
Remeasurement of deferred tax – change in income tax rate	**(1,706)**	–
Tax expense/(credit)	**24,803**	(8,914)
Effective tax rate	**10.3%**	N/A

Provision of EIT of HK$16,090,000 in respect of the period from 2000 to 2004 has been written back in 2008 as such provision is no longer considered as necessary.

29. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$55,182,000 (2008: HK$37,945,000).

30. RETIREMENT BENEFITS – GROUP

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,000 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. Furthermore, the Group pays monthly allowance to certain old retired persons.

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP

(a) Directors' emoluments

The remuneration of each director of the Company is set out below:

Name	Fees	Salaries	Other benefits	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009					
Executive directors					
Mr. Wu Qin	–	3,000	28	41	3,069
Mr. Qu Jiguang	–	2,600	11	29	2,640
Mr. Xie Yunfeng	–	600	28	14	642
Mr. Huang Chao	–	600	28	28	656
Ms. Sun Xinglai	–	484	76	12	572
Mr. Wang Xianjun	–	1,173	27	12	1,212
Mr. Duan Wei	–	600	8	17	625
Mr. Wang Zhizhong	–	292	4	10	306
Ms. Zhang Guifu	–	300	8	17	325
Mr. Bao Leyuan	–	300	28	14	342
Ms. Gao Shuping	–	208	3	7	218
	–	10,157	249	201	10,607
Non-executive director					
Mr. Liu Zhiyong	60	–	–	–	60
Independent non-executive directors					
Mr. Wang Yibing	180	–	–	–	180
Mr. Leung Chong Shun	180	–	–	–	180
Mr. Chow Kwok Wai	180	–	–	–	180
	540	–	–	–	540
	600	10,157	249	201	11,207

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(continued)*

(a) Directors' emoluments *(continued)*

Name	Fees	Salaries	Other benefits	Pension	Share-based compensation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008						
Executive directors						
Mr. Wu Qin	–	3,000	–	12	1,074	4,086
Mr. Qu Jiguang	–	2,600	24	12	1,074	3,710
Mr. Wu Zhihong	–	333	4	5	–	342
Mr. Xie Yunfeng	–	600	5	6	1,074	1,685
Mr. Huang Chao	–	600	9	6	767	1,382
Ms. Sun Xinglai	–	610	90	12	–	712
Mr. Wang Xianjun	–	1,116	384	12	921	2,433
Mr. Duan Wei	–	600	15	6	1,074	1,695
Mr. Wang Zhizhong	–	500	14	6	–	520
Ms. Zhang Guifu	–	300	15	6	–	321
Mr. Bao Leyuan	–	100	3	6	–	109
	–	10,359	563	89	5,984	16,995
Non-executive director						
Mr. Liu Zhiyong	60	–	–	–	–	60
Independent non-executive directors						
Mr. Wang Yibing	180	–	–	–	–	180
Mr. Leung Chong Shun	180	–	–	–	–	180
Mr. Chow Kwok Wai	180	–	–	–	–	180
	540	–	–	–	–	540
	600	10,359	563	89	5,984	17,595

No directors waived any emoluments during the year ended 31 December 2009 (2008: Nil).

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2008: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2008: nil) individual during the year are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries, bonus and allowances	**780**	–
Pension	**12**	–
	792	–

The emoluments fell within the following band:

	2009	2008
	HK$'000	*HK$'000*
Emoluments band (in HK dollar)		
Less than HK$1,000,000	**792**	–

(c) During the year ended 31 December 2009, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

32. EARNINGS PER SHARE – GROUP

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**216,095**	102,106
Weighted average number of ordinary shares in issue after adjustment for the sub-division of shares (thousands)	**2,032,713**	2,026,842
Basic earnings per share (HK$ per share)	**0.106**	0.050

32. EARNINGS PER SHARE – GROUP *(continued)*

(b) Diluted

Diluted earnings per share is calculated after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only two categories of dilutive potential ordinary shares: convertible bonds and share options. For convertible bonds, it is assumed that they have been converted into ordinary shares since the beginning of the year or date of issuance (whichever is later) and, consequently the net profit is adjusted to eliminate the relevant interest expense together with the related tax effect. For outstanding share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares in the relevant periods) based on the market values of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2009 *HK$'000*	2008 *HK$'000*
Profit used to determine diluted earnings per share	**216,095**	102,106
Weighted average number of ordinary shares in issue (thousands)	**2,032,713**	2,026,842
Adjustment for share options (thousands)	**19,732**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,052,445**	2,026,842
Diluted earnings per share (HK$ per share)	**0.105**	0.050

During the year ended 31 December 2009, the dilutive effect of convertible bonds is anti-dilutive and therefore not included in the above calculation.

During the year ended 31 December 2008, the dilutive effect of convertible bonds and share options are anti-dilutive and therefore not included in the above calculation.

33. DIVIDENDS

	2009 *HK$'000*	2008 *HK$'000*
Interim dividend of HK$0.02 (2008: HK$0.006) per ordinary share	**40,540**	12,162
Proposed final dividend of HK$0.02 (2008: HK$0.01) per ordinary share	**42,398**	20,270
	82,938	32,432

The directors recommend the payment of a final dividend of HK$0.02 per ordinary share, totaling HK$42,398,000 in respect of the year ended 31 December 2009. Such a dividend is to be approved by the Company's shareholders at the upcoming Annual General Meeting. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

34. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of cash generated from operations

	2009	2008
	HK$'000	*HK$'000*
Profit before income tax	**240,997**	93,282
(Reversal of)/Provision for impairment of receivables	**(5,479)**	13,699
(Reversal of)/Write-down of inventories to their net realisable value	**(7,311)**	6,601
Provision for impairment of property, plant and equipment	**1,194**	–
Depreciation of property, plant and equipment	**72,556**	68,250
(Gain)/Loss on disposal of property, plant and equipment	**(361)**	1,813
Amortisation of land use rights	**5,259**	1,861
Amortisation of intangible assets	**17,628**	17,081
Gain on disposal of a subsidiary	**–**	(8,420)
Gain on disposal of available-for-sale financial assets	**–**	(429)
Gain on disposal of financial assets at fair value through profit or loss	**(5,199)**	(830)
Change in fair value of financial assets at fair value through profit or loss	**–**	2,116
Gain on redemption of convertible bonds	**(9,043)**	(5,745)
Share-based compensation	**–**	15,346
Interest income	**(1,331)**	(2,100)
Interest expenses	**41,114**	41,222
Operating profit before working capital changes	**350,024**	243,747
Changes in working capital:		
Decrease/(Increase) in inventories	**4,081**	(35,021)
Increase in trade and bills receivables	**(76,400)**	(72,715)
(Increase)/Decrease in prepayments, deposits and other receivables	**(23,793)**	11,147
Increase in trade and bills payables	**22,965**	19,284
Increase/(Decrease) in advance receipts from customers	**65**	(7,582)
Increase in accruals and other payables	**5,466**	33,643
Net cash inflow generated from operations	**282,408**	192,503

34. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Proceeds from disposals of property, plant and equipment

	2009	2008
	HK$'000	*HK$'000*
Net book amount disposed *(Note 7)*	**15,502**	72,805
Gain/(Loss) on disposal of property, plant and equipment	**361**	(1,813)
Proceeds from disposals of property, plant and equipment, net of transaction costs	**15,863**	70,992

(c) Major non-cash transactions

For the year ended 31 December 2009, the Group endorsed bank acceptance notes to the supplier for purchase of property, plant and equipment amounting to approximately HK$ 90 million.

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) The directors are of the view that the following companies are related parties of the Group:

Name	Relationship
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 30.3% interest in the Company as at 31 December 2009
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")	Subsidiary of Rejoy Technology
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	An entity significantly influenced by certain key management personnel of the Group

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(a) *(continued)*

Rejoy Technology has transferred the share of Rejoy Baichuan to an individual on 25 December 2009. Rejoy Baichuan is no longer related party of the Group from 25 December 2009 onwards. The related party transaction amounts with Rejoy Baichuan disclosed in these financial statements were transactions before 25 December 2009.

(b) Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	2009 HK$'000	2008 HK$'000
Purchasing of raw materials and packaging materials from	Rejoy Packaging	**2,601**	3,738
Sales of finished goods to	Rejoy Baichuan	**7,043**	18,225
	Rejoy Medicine	**1,790**	4,222
	Xi'an Pharmacy Factory	**–**	402
		8,833	22,849
Provision of utilities from	Xi'an Pharmacy Factory	**41,166**	55,970
Payment of administrative costs to	Xi'an Pharmacy Factory	**3,405**	3,300
Lease of land use rights from	Rejoy Group	**–**	6,883
Lease of office premises to	Rejoy Group	**227**	214
	Rejoy Packaging	**68**	–
	Rejoy Medicine	**–**	104
	Rejoy Baichuan	**–**	49
		295	367
Disposal of fixed assets to	Rejoy Real Estate	**–**	71,367
Purchase of land use rights from	Rejoy Group	**–**	139,387

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(c) The Group had the following significant balances with related parties:

	2009	2008
	HK$'000	*HK$'000*
Amounts due from related parties, included in trade receivables		
– Rejoy Medicine	**2,486**	3,850
– Rejoy Baichuan	**–**	11,486
	2,486	15,336

	2009	2008
	HK$'000	*HK$'000*
Amounts due from related parties, included in other receivables		
– Xi'an Pharmacy Factory	**7,842**	5,925
– Rejoy Group	**114**	113
– Rejoy Technology	**–**	67
	7,956	6,105

	2009	2008
	HK$'000	*HK$'000*
Amounts due to related parties, included in trade payables		
– Rejoy Packaging	**357**	117

	2009	2008
	HK$'000	*HK$'000*
Amounts due to related parties, included in other payables		
– Rejoy Group	**–**	82,930

The related party balances are unsecured and interest-free.

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(d) Key management compensation

	2009	2008
	HK$'000	*HK$'000*
Salaries, bonus and allowances	**11,186**	11,402
Pension	**213**	96
Share-based compensation in respect of share options	**–**	5,984
	11,399	17,482

36. COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet dates contracted but not yet provided for is as follows:

	2009	2008
	HK$'000	*HK$'000*
– Plant and machineries	**6,262**	8,706

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of office premises in Mainland China and Hong Kong under non-cancellable operating leases are payable as follows:

	2009	2008
	HK$'000	*HK$'000*
Not later than one year	**2,533**	1,317
Later than one year and not later than five years	**1,405**	1,608
More than five years	**7,488**	7,827
	11,426	10,752

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2005 HK$'000 (Audited)	2006 HK$'000 (Audited)	2007 HK$'000 (Audited)	2008 HK$'000 (Audited)	**2009** **HK$'000** **(Audited)**
RESULTS					
Turnover	840,978	841,715	1,139,431	1,591,028	**1,739,628**
Profit before income tax	125,160	90,369	132,002	93,282	**240,997**
Income tax expense	(14,375)	(945)	(12,442)	8,914	**(24,803)**
Profit for the year	110,785	91,314	119,560	102,196	**216,194**
Attribute to:					
Equity holders of the Company	88,699	82,715	119,530	102,106	**216,095**
Minority interest	22,086	8,599	30	90	**99**

	As at 31 December				
	2005 HK$'000 (Audited)	2006 HK$'000 (Audited)	2007 HK$'000 (Audited)	2008 HK$'000 (Audited)	**2009** **HK$'000** **(Audited)**
ASSETS AND LIABILITIES					
Total assets	901,296	910,655	2,072,843	2,511,447	**2,500,259**
Total liabilities	(329,949)	(410,673)	(876,747)	(1,141,658)	**(874,439)**
Minority interest	(90,019)	–	(800)	(945)	**(1,044)**
Shareholder's equity	481,328	499,982	1,195,296	1,368,844	**1,624,776**