中國製藥集團有限公司

China Pharmaceutical Group Limited

Stock Code: 1093

Annual Report 2009

CONTENTS

溫家寶總理到河北考察時接見本公司主席蔡東晨先生。
Premier Wen Jiabao met with Mr. Cai Dongchen (Chairman of the Company) during his visit to Hebei Province.

國務院委員劉延東女士到本集團考察。
Madam Liu Yandong (State Councilor) visited our Group.

收購山西銀湖的簽約儀式。
The signing ceremony for the acquisition of Shanxi Yinhu.

著名藝人葛優先生出任重點產品<果維康>維生素C含片的產品代言人。
Well-known actor Mr. Ge You acted as the spokesperson of our product - "Guo Wei Kang" vitamin C buccal tablets.

員工培訓活動。
Staff training programme.

Corporate Information

BOARD OF DIRECTORS

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

Non-executive Director:
LEE Ka Sze, Carmelo

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

COMMITTEES

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

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

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

CHAK Kin Man
PAN Weidong

REGISTERED OFFICE

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

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China, Hebei Branch
Bank of China (Hong Kong) Limited
Bank of China, Hebei Branch
Bank of China, Huhhot Branch
Bank of Communication, Hebei Branch
China Construction Bank, Hebei Branch
China Merchants Bank, Shenzhen Branch
China Minsheng Banking Corporation Limited, Shijiazhuang Branch
CITIC Ka Wah Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Industrial and Commercial Bank of China, Hebei Branch

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

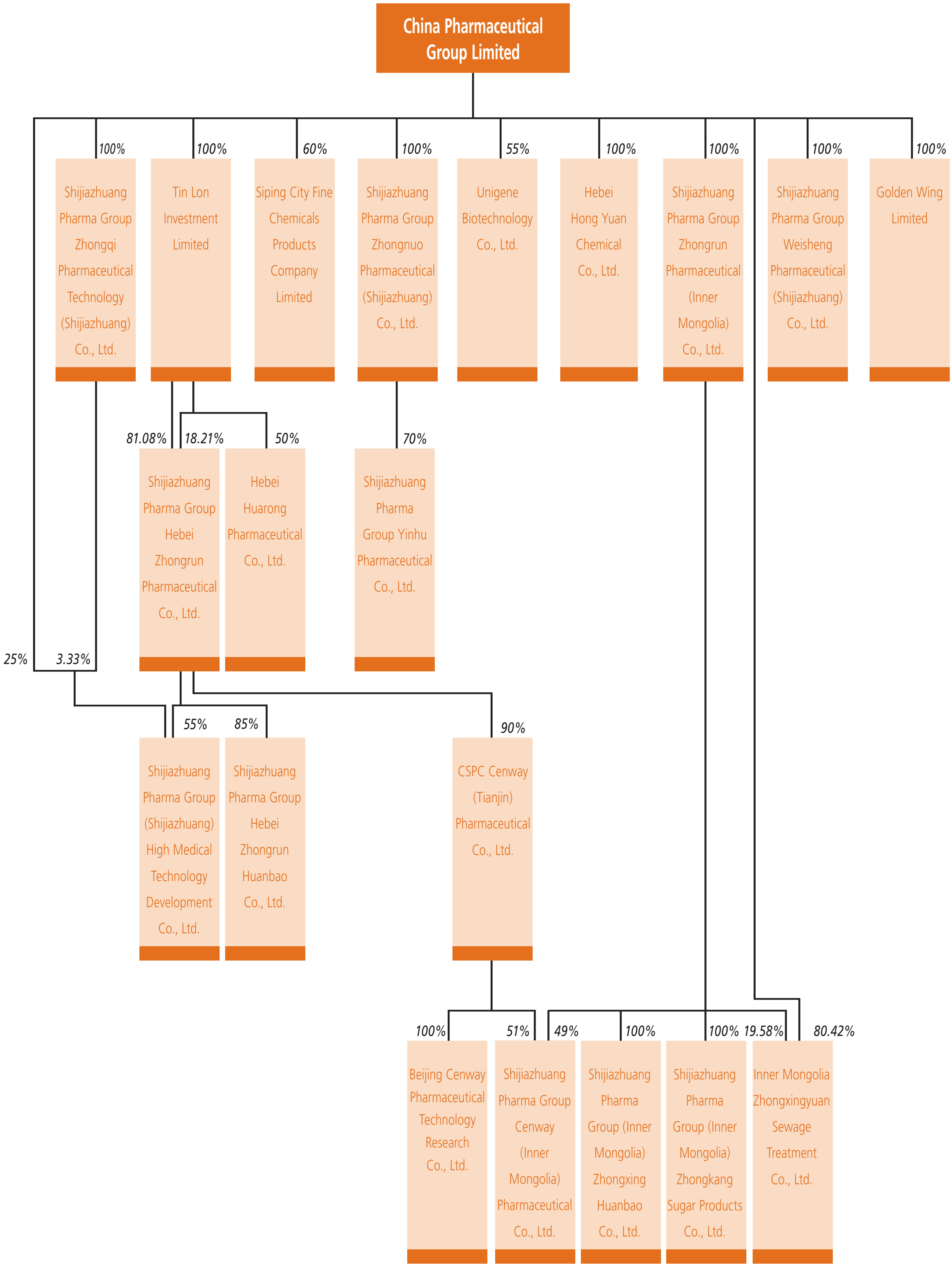
STOCK CODE

1093

WEBSITES

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

Corporate Structure



CHAIRMAN'S STATEMENT

RESULTS

Driven by the vitamin C and finished drugs businesses, the Group continued to record growth in its results for 2009. Revenue and profit attributable to shareholders for the year amounted to approximately HK$7,032 million and HK$971 million, representing an increase of 3.0% and 3.2% respectively as compared to last year, the historical high since our listing.

The Board of Directors recommends the payment of a final dividend of HK24 cents per share for the year ended 31 December 2009.

BUSINESS REVIEW AND OUTLOOK

Intermediates and Bulk Drugs Business

Vitamin C Series

Under the impact of the financial crisis, the demand from overseas market declined slightly in 2009. However, the balance of supply and demand was maintained and product prices remained at high level. Revenue and operating profit of the business for the year reached HK$2,222 million and HK$1,120 million, representing an increase of 3.0% and 14.6% respectively as compared to last year.

In 2009, the Group actively developed the overseas market and strengthened the business relationship with major end-user customers. The number of customers with annual purchase of over 100 tonnes continued to increase. The Group also made significant achievement in expanding into the high-end pharmaceutical market. In addition to the award of GMP certificate from Germany last year, the Group obtained GMP certificate from Japan during the year and passed the US FDA on-site inspection in February 2010. Being the only PRC vitamin C manufacturer qualified to enter the international high-end pharmaceutical market, the Group is endowed with a new opportunity for further growth.

The market is expected to be increasingly competitive in 2010. The Group will consolidate its leading edge by enhancing its technological standard, increasing the proportion of sales to end-user customers and actively exploiting the international high-end pharmaceutical market and emerging market.

Antibiotics Series

The penicillin business faced a difficult operating environment in 2009. Over-capacity has been aggravated by the significant expansion of production capacity by competitors, leading to weak selling prices. Leveraging on the advantages of product quality and production cost, the Group was able to maintain its market share with similar sales volume as last year. The operating environment of the cephalosporin business remained stable in 2009. With the increase in sales volume of the new product "cefuroxime acid", this business has achieved satisfactory growth in revenue.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Intermediates and Bulk Drugs Business *(continued)*

Antibiotics Series *(continued)*

During the year, the Group further achieved vertical integration through the acquisition of a major raw material supplier, effectively reducing its production costs and strengthening its competitive advantages. The Group also expanded into the business of GCLE, a cephalosporin intermediate, through the acquisition of 90% equity interest in CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd. to improve its product mix. In addition, the construction of a production workshop with annual capacity of 600 tonnes was completed, further extending the product chain to include downstream products such as cefotaxime sodium, cefuroxime sodium and cefixime.

With the gradual improvement in market environment and contribution from new products, the performance of this business is expected to be able to improve.

Finished Drugs Business

In 2009, the finished drugs business maintained its growth momentum with revenue increasing by 10.1% to HK$2,189 million as compared to last year. The revenue of antibiotics, health supplements and cardio-cerebrovascular products amounted HK$1,734 million, HK$147 million and HK$87 million, representing 79.2%, 6.7% and 4.0% of the revenue of this business respectively. The newly acquired business of TCM ("Traditional Chinese Medicines") and intravenous infusion solution products also contributed revenue of HK$52 million. With the improvement of product portfolio, the gross profit margin of this business increased to 29.9% while its operating profit rose to HK$142 million.

The PRC government's vast investment in improving the medical and healthcare services and expanding the medical insurance coverage has driven the demand for pharmaceutical products. To seize the opportunities, the Group has established a specialised sales force, which focuses on developing the end-user market in county hospitals, township health centers and community healthcare service centers, in order to increase its market share. Moreover, the Group also endeavoured to enhance the product portfolio by increasing the proportion of products with high margin. During the year, apart from the acquisition of the business of TCM and intravenous infusion products, the Group was able to boost the sales of high margin products including vitamin C supplement "Guo Wei Kang" and meropenem injection through effective marketing strategies.

Looking ahead to 2010, the Group will formulate effective strategies in light of the progress of the medical reform and strive to capitalize on the growth opportunities. Apart from active market expansion, the Group will also step up its research and development effort with focus on antibiotics (carbapenem type), cardiovascular medicines (lowering of blood pressure, blood lipid and blood glucose) and anti-tumor medicines and carry out international drug registration in order to achieve the goal of sustainable and rapid development. With effective implementation of the growth strategies, we believe that finished drugs will be developed as the leading business segment of the Group.

FINANCIAL REVIEW

Liquidity and financial position

In 2009, the Group's operating activities generated a net cash inflow of HK$1,567,697,000. Capital expenditure in relation to the addition of production facilities amounted to HK$594,224,000. As at 31 December 2009, current ratio of the Group was 1.5, same as last year. As customers increased the use of bills for settlement, debtor turnover period (ratio of the total balance of trade receivables and bills receivables to sales, inclusive of value added tax for sales in the PRC) increased from 49 days in the previous year to 73 days in the current year. Inventory turnover period (ratio of inventory balance to cost of sales) shortened from 106 days in the previous year to 75 days in the current year.

FINANCIAL REVIEW *(continued)*

Liquidity and financial position *(continued)*

The Group's financial position remained strong. As at 31 December 2009, total bank balances and cash amounted to HK$1,493,800,000 and total loans amounted to HK$1,596,218,000 (comprising bank loans of HK$1,567,809,000 and loan from a jointly controlled entity of HK$28,409,000). Out of the loans, HK$880,782,000 will be repayable within one year and the remaining HK$715,436,000 repayable between two to five years. Net gearing ratio (calculated on the basis of the Group's total loans net of bank balances and cash over shareholders' equity) further decreased from 8% a year earlier to 2% as at 31 December 2009.

46% of the Group's loans are denominated in Hong Kong dollars or US dollars and the remaining 54% in Renminbi. The Group's revenue is mainly either in Renminbi or in US dollars. The Group believes that its exposure to foreign currency risks is not significant, but we will monitor closely the currency movement.

Pledge of assets

As at 31 December 2009, bank deposits of HK$50,637,000 (2008: HK$2,048,000) were pledged to banks to secure short-term banking facilities.

Contingent liabilities

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

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

Further information on the antitrust complaints is set out in note 42 to the consolidated financial statement.

EMPLOYEES

As at 31 December 2009, the Group had about 10,623 employees. The majority of them are employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

ACKNOWLEDGEMENT

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

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 9 April 2010

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2009 with deviation from code provision A.2.1 as set out below.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises seven executive directors, one non-executive director and four independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 15 to 17 of this annual report.

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

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2009. Individual attendance of each director at the regular board meetings and committee meetings in 2009 is set out below:

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

BOARD OF DIRECTORS *(continued)*

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

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

The committee met once in 2009 to consider and approve the remuneration packages for executive directors of the Company.

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board will review the structure, size and composition of the Board from time to time and make recommendation on the appointment of directors. There was no change in directors during 2009.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2009.

AUDIT COMMITTEE

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

Four meetings were held in 2009. At the meetings, the committee discussed and reviewed the following matters:

1. the 2008 annual results, annual report and results announcement;
2. the external auditor's report to the Audit Committee in respect of the 2008 annual audit;
3. the quarterly results for the three months ended 31 March 2009 and results announcement;
4. the 2009 interim results, interim report and results announcement;
5. the external auditor's report to the Audit Committee in respect of the 2009 interim review;
6. the quarterly results for the nine months ended 30 September 2009 and results announcement; and
7. the performance of the external auditor and its remuneration.

INTERNAL CONTROLS

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

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$2,000,000 for audit services and HK$490,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and certain agreed-upon procedures.

FINANCIAL REPORTING

The responsibilities for the financial statements of the Directors and the external auditor are set out on page 21 of this annual report.

COMMUNICATIONS WITH SHAREHOLDERS

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

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

At the 2009 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee and Remuneration Committee has attended the 2009 annual general meeting to ensure effective communication with shareholders.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and jointly controlled entity are set out in notes 44 and 21 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 23 of the annual report.

The Board of Directors recommends the payment of a final dividend of HK24 cents per share for the year ended 31 December 2009, representing a distribution of HK$368,391,000. Subject to shareholders' approval of the final dividend at the annual general meeting on 28 May 2010, payment of the final dividend will be made on 15 June 2010 to shareholders whose names appear on the register of members of the Company on 28 May 2010.

The register of members of the Company will be closed from Monday, 24 May 2010 to Friday, 28 May 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 20 May 2010.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2009 comprised the retained profits of HK$585,678,000 (2008: HK$671,579,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to upgrade its production facilities. Details of these and movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and the share option scheme of the Company are set out in notes 32 and 33 to the consolidated financial statements, respectively.

Directors' Report

DIRECTORS

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

Executive directors:

Cai Dongchen, Chairman
Yue Jin
Feng Zhenying
Chak Kin Man
Pan Weidong
Zhao John Huan
Wang Shunlong

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing
Qi Moujia
Guo Shichang
Chan Siu Keung, Leonard

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

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 56, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. He is also a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has over thirty years of technical and management experience in the pharmaceutical industry. Mr. Cai is a deputy of the 11th National People's Congress of the People's Republic of China (the "PRC").

YUE Jin

Mr. Yue, aged 46, was appointed as an executive director of the Company in 2001. He is also a director of certain subsidiaries of the Group. He graduated from Hebei University and has over twenty years of technical and management experience in the pharmaceutical industry.

FENG Zhenying

Mr. Feng, aged 54, was appointed as an executive director of the Company in 2003. He is also a director of certain subsidiaries of the Group. He graduated from Hebei Chemical College and has over twenty years of technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 44, was appointed as an executive director of the Company in 2005. He is also a director of certain subsidiaries of the Group. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor of social sciences degree from The University of Hong Kong and has over twenty years of experience in auditing and financial management.

PAN Weidong

Mr. Pan, aged 40, was appointed as an executive director of the Company in 2006. He is also a director of certain subsidiaries of the Group. He graduated from Shijiazhuang Post College and has over twenty years of experience in financial management and accounting.

ZHAO John Huan

Mr. Zhao, aged 47, was appointed as an executive director of the Company in 2008. He holds a MBA degree from Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. Mr. Zhao has extensive experience in senior management positions at several companies in the United States and the PRC. Mr. Zhao is a vice president of Legend Holdings Limited ("Legend"), a director of Massive Giant Group Limited ("Massive Giant") and the CEO of Hony Capital Limited. Massive Giant is the controlling shareholder of the Company and Legend owns an indirect interest of approximately 34.48% in Massive Giant. Hony Capital Limited is owned as to 100% by Legend.

Mr. Zhao is also a non-executive director of China Glass Holdings Limited (listed on The Stock Exchange of Hong Kong Limited), a director of Simcere Pharmaceutical Group (listed on New York Stock Exchange) and an independent director of Gemdale Holdings Co., Limited (listed on Shanghai Stock Exchange). Mr. Zhao became a non-executive director of Wumart Stores, Inc. (listed on The Stock Exchange of Hong Kong Limited) upon his appointment in November 2009.

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

WANG Shunlong

Mr. Wang, aged 45, was appointed as an executive director of the Company in 2008. He holds a doctorate degree in engineering from Tsinghua University and has spent three years as a visiting researcher at Eindhoven University of Technology in the Netherlands. Mr. Wang has extensive experience in corporate management and investment planning. Mr. Wang is a managing director of Hony Capital Limited and a director of Massive Giant.

Mr. Wang is also an independent non-executive director of Zhongyu Gas Holdings Limited (listed on The Stock Exchange of Hong Kong Limited).

LEE Ka Sze, Carmelo

Mr. Lee, aged 49, was appointed as an independent non-executive director of the Company in 1996 and re-designated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. Lee holds a Bachelor of Laws degree from The University of Hong Kong. He is a solicitor by profession and is a partner of a law firm in Hong Kong.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, The Cross-Harbour (Holdings) Limited, Yugang International Limited, Y.T. Realty Group Limited, Safety Godown Company, Limited and Termbray Industries International (Holdings) Limited, and an independent non-executive director of KWG Property Holding Limited and Ping An Insurance (Group) Company of China, Ltd. Mr. Lee ceased to be a non-executive director of Taifook Securities Group Limited upon his resignation on 13 January 2010. All of the above companies are listed on The Stock Exchange of Hong Kong Limited.

HUO Zhenxing

Mr. Huo, aged 74, was appointed as an independent non-executive director of the Company in 1994. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 77, was appointed as an independent non-executive director of the Company in 1996. He was the former director of the State Drug Administration of China (the "SDA", now known as the State Food and Drug Administration of China). He was the deputy chairman and chairman of the SDA in 1978 and 1982-1994, respectively.

Mr. Qi is also an independent director of 3SBio, Inc. (listed on NASDAQ). He ceased to be an independent director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Limited (listed on Shanghai Stock Exchange) in 2009.

GUO Shichang

Mr. Guo, aged 68, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government in the PRC from 1993 to 2002.

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

CHAN Siu Keung, Leonard

Mr. Chan, aged 52, was appointed as an independent non-executive director of the Company in 2004. He is also a member of the Audit Committee and the Remuneration Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions:

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

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2009.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 33 to the consolidated financial statements, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	**Capacity**	**Number of issued ordinary shares held**	**Approximate percentage of the issued share capital of the Company**
Massive Giant	Beneficial owner	783,482,393	51.04%
Legend	Interest to an agreement	783,482,393 *(note i)*	51.04%
Employees' Shareholding Society of Legend ("Employees' Society")	Interest held by a controlled corporation	783,482,393 *(note ii)*	51.04%

Notes:

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

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at 31 December 2009.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 26 to the consolidated financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

CONNECTED TRANSACTIONS *(continued)*

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

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

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

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

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

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

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Pursuant to two bank loan agreements, it will be an event of default under each of the loan agreements if (i) Hony Capital Fund III, L.P. ("Hony Capital") ceases to own (directly or indirectly) at least 35% interest in the Company; (ii) Legend ceases to own (directly or indirectly) at least 34.48% interest in Hony Capital; or (iii) any replacement or addition (in terms of head count) of executive directors of the Company exceeds one third of the existing executive directors. The outstanding principal of these two bank loans at 31 December 2009 amounted to HK$345,400,000 and the last instalment repayment is due in December 2011.

Pursuant to another bank loan agreement, it will be an event of default if (i) Hony Capital ceases to own (directly or indirectly) at least 35% interest in the Company or ceases to be (directly or indirectly) the single largest shareholder of the Company; (ii) Legend ceases to own (directly or indirectly) at least 34.48% interest in Hony Capital or ceases to hold the single largest value of fund in Hony Capital; or (iii) Hony Capital fails to vest in Legend the ultimate control in relation to all decisions exercisable (directly or indirectly) by Massive Giant or Hony Capital to the extent they relate to (a) the management of Massive Giant's or Hony Capital's direct or indirect equity stake in the Company; (b) Massive Giant's or Hony Capital's direct or indirect equity stake in the Company and any disposal of investment decisions in relation thereto; and (c) all other matters relating to the general management and affairs of the Company. The outstanding principal of the bank loan at 31 December 2009 amounted to HK$331,500,000 and the last instalment repayment is due in November 2011.

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

ANNUAL CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EMOLUMENT POLICY

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 33 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2009.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$629,000.

EVENT AFTER THE REPORTING PERIOD

Details of a significant event occurring after the reporting period are set out in note 45 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board
CAI Dongchen
Chairman

9 April 2010

Deloitte.
德勤

TO THE MEMBERS OF CHINA PHARMACEUTICAL GROUP LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 94, which comprise the consolidated and Company's statements of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
9 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue	7	**7,031,601**	6,829,995
Cost of sales		**(4,764,308)**	(4,548,661)
Gross profit		**2,267,293**	2,281,334
Other income		**49,482**	42,834
Selling and distribution expenses		**(587,842)**	(470,787)
Administrative expenses		**(461,522)**	(514,493)
Other expenses		**(96,848)**	(120,801)
Operating profit		**1,170,563**	1,218,087
Share of results of a jointly controlled entity		**1,035**	1,442
Share of results of an associate		**—**	1,362
Gain on termination of a derivative financial instrument	8	**—**	6,851
Net gain on disposal of subsidiaries	38	**24,128**	—
Impairment loss on an available-for-sale investment		**—**	(10,362)
Finance costs	9	**(69,916)**	(109,367)
Profit before tax	10	**1,125,810**	1,108,013
Income tax expense	11	**(142,776)**	(160,983)
Profit for the year		**983,034**	947,030
Profit for the year attributable to:			
Owners of the Company		**970,739**	940,560
Minority interests		**12,295**	6,470
		983,034	947,030
		HK cents	*HK cents*
Earnings per share — Basic	15	**63.24**	61.16

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Profit for the year		**983,034**	947,030
Other comprehensive income:			
Exchange differences arising on translation to presentation currency		**—**	289,087
Gain on fair value change of an available-for-sale investment		**758**	—
Capital contribution reserve released on disposal of a subsidiary	*38*	**(1,599)**	—
Other comprehensive income for the year		**(841)**	289,087
Total comprehensive income for the year		**982,193**	1,236,117
Total comprehensive income attributable to:			
Owners of the Company		**969,898**	1,228,408
Minority interests		**12,295**	7,709
		982,193	1,236,117

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	16	**4,044,989**	3,781,309
Prepaid lease payments	17	**257,499**	198,524
Intangible assets	18	**154,528**	89,333
Goodwill	19	**150,843**	106,753
Interest in a jointly controlled entity	21	**23,976**	22,941
Available-for-sale investments	22	**7,770**	5,307
Pledged bank deposits	23	**—**	2,048
		4,639,605	4,206,215
Current assets			
Inventories	24	**978,525**	1,324,711
Trade and other receivables	25	**1,065,967**	908,094
Bills receivables	25	**725,750**	297,382
Prepaid lease payments	16	**7,605**	6,149
Tax recoverable		**60**	3,246
Trade receivables due from a connected company	26	**28,283**	23,063
Amount due from a jointly controlled entity	26	**17,939**	13,484
Pledged bank deposits	23	**50,637**	—
Bank balances and cash	23	**1,443,163**	1,121,062
		4,317,929	3,697,191
Current liabilities			
Trade and other payables	27	**1,497,610**	1,403,365
Bills payables	27	**357,045**	253,409
Trade payables due to a related company	26	**829**	17,711
Amounts due to related companies	26	**7,057**	14,375
Amounts due to connected companies	26	**37,449**	—
Tax liabilities		**96,540**	120,216
Unsecured bank loans	28	**880,782**	568,636
Loans from a related company	29	**—**	8,382
		2,877,312	2,386,094
Net current assets		**1,440,617**	1,311,097
Total assets less current liabilities		**6,080,222**	5,517,312

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Unsecured bank loans	28	**687,027**	804,991
Loan from a related company	29	**—**	113,636
Loan from a jointly controlled entity	30	**28,409**	—
Deferred tax liabilities	31	**35,323**	15,490
		750,759	934,117
Net assets		**5,329,463**	4,583,195
Capital and reserves			
Share capital	32	**153,496**	153,496
Reserves		**5,006,788**	4,343,882
Equity attributable to owners of the Company		**5,160,284**	4,497,378
Minority interests		**169,179**	85,817
Total equity		**5,329,463**	4,583,195

The consolidated financial statements from pages 23 to 94 were approved and authorised for issue by the board of directors on 9 April 2010 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	16	**387**	601
Investments in subsidiaries	34	**1,444,574**	1,506,033
		1,444,961	1,506,634
Current assets			
Other receivables		**11,231**	8,193
Amounts due from subsidiaries	35	**1,136,547**	1,008,065
Bank balances and cash	23	**28,037**	77,963
		1,175,815	1,094,221
Current liabilities			
Other payables		**37,659**	37,837
Unsecured bank loans	28	**312,600**	100,000
		350,259	137,837
Net current assets		**825,556**	956,384
Total assets less current liabilities		**2,270,517**	2,463,018
Non-current liability			
Unsecured bank loans	28	**414,300**	520,900
Net assets		**1,856,217**	1,942,118
Capital and reserves			
Share capital	32	**153,496**	153,496
Reserves	36	**1,702,721**	1,788,622
Total equity		**1,856,217**	1,942,118

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2009

	Equity attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital contribution HK$'000	Goodwill reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Non-distributable reserves HK$'000 (note i)	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	153,812	1,116,727	–	1,599	(160,130)	–	445,297	553,610	1,241,383	3,352,298	18,842	3,371,140
Exchange differences arising on translation to presentation currency	–	–	–	–	–	–	287,848	–	–	287,848	1,239	289,087
Profit for the year	–	–	–	–	–	–	–	–	940,560	940,560	6,470	947,030
Total comprehensive income for the year	–	–	–	–	–	–	287,848	–	940,560	1,228,408	7,709	1,236,117
Acquisition of additional interest in a subsidiary *(note ii)*	–	–	–	–	–	–	–	–	–	–	(1,444)	(1,444)
Transfers	–	–	–	–	–	–	–	34,592	(34,592)	–	–	–
Final dividend for the year ended 31 December 2007	–	–	–	–	–	–	–	–	(76,906)	(76,906)	–	(76,906)
Shares repurchased	(316)	–	316	–	–	–	–	–	(6,422)	(6,422)	–	(6,422)
Capital contribution by the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	17,375	17,375
Acquisition of subsidiaries *(note 37)*	–	–	–	–	–	–	–	–	–	–	45,310	45,310
Dividend paid to the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,975)	(1,975)
At 31 December 2008	**153,496**	**1,116,727**	**316**	**1,599**	**(160,130)**	**–**	**733,145**	**588,202**	**2,064,023**	**4,497,378**	**85,817**	**4,583,195**
Gain on fair value change of an available-for-sale investment	–	–	–	–	–	758	–	–	–	758	–	758
Released on disposal of a subsidiary *(note 38)*	–	–	–	(1,599)	–	–	–	–	–	(1,599)	–	(1,599)
Profit for the year	–	–	–	–	–	–	–	–	970,739	970,739	12,295	983,034
Total comprehensive income for the year	–	–	–	(1,599)	–	758	–	–	970,739	969,898	12,295	982,193
Acquisition of additional interest in a subsidiary *(note iii)*	–	–	–	–	–	–	–	–	–	–	(6,067)	(6,067)
Final dividend for the year ended 31 December 2008 *(note 14)*	–	–	–	–	–	–	–	–	(306,992)	(306,992)	–	(306,992)
Capital contribution by the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	34,092	34,092
Released on disposal of subsidiaries	–	–	–	–	–	–	(17,229)	–	17,229	–	–	–
Acquisition of subsidiaries *(note 37)*	–	–	–	–	–	–	–	–	–	–	43,042	43,042
At 31 December 2009	**153,496**	**1,116,727**	**316**	**–**	**(160,130)**	**758**	**715,916**	**588,202**	**2,744,999**	**5,160,284**	**169,179**	**5,329,463**

Notes:

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

(ii) During the year ended 31 December 2008, the Group additionally acquired an aggregate of 19.58% equity interest by two acquisitions in a non wholly-owned subsidiary, Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd., which then became a wholly-owned subsidiary of the Company.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**1,125,810**	1,108,013
Adjustments for:			
Amortisation of intangible assets		**22,686**	23,482
Amortisation of prepaid lease payments		**6,271**	5,736
Depreciation of property, plant and equipment		**473,234**	442,018
Finance costs		**69,916**	109,367
Gain on termination of a derivative financial instrument		**—**	(6,851)
Impairment loss on an available-for-sale investment		**—**	10,362
Impairment loss on trade receivables		**5,000**	2,000
Interest income		**(9,751)**	(6,743)
Loss on disposal/write-off of property, plant and equipment		**11,229**	66,045
Net gain on disposal of subsidiaries		**(24,128)**	—
Share of results of a jointly controlled entity		**(1,035)**	(1,442)
Share of results of an associate		**—**	(1,362)
Operating cash flows before movements in working capital		**1,679,232**	1,750,625
Decrease (increase) in inventories		**424,397**	(380,817)
Increase in trade and other receivables		**(144,645)**	(139,099)
(Increase) decrease in bills receivables		**(380,585)**	10,680
(Increase) decrease in trade receivables due from a connected company		**(5,220)**	17,459
(Increase) decrease in amount due from a jointly controlled entity		**(4,455)**	908
Increase in trade and other payables		**98,287**	263,018
Increase in bills payables		**103,636**	83,872
Decrease in trade payables due to a related company		**(16,882)**	(8,109)
Increase (decrease) in amounts due to related companies		**56,586**	(603)
Decrease in amounts due to connected companies		**(93,330)**	—
Cash generated from operations		**1,717,021**	1,597,934
PRC Enterprise Income Tax paid		**(159,540)**	(112,671)
PRC Enterprise Income Tax refunded		**10,216**	31,030
NET CASH FROM OPERATING ACTIVITIES		**1,567,697**	1,516,293

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	**2009**	2008
		HK$'000	*HK$'000*
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(691,534)**	(362,381)
Acquisition of subsidiaries	37	**(249,515)**	(11,667)
Increase in pledged bank deposits		**(48,896)**	(1,297)
Purchase of intangible assets		**(21,394)**	(50,487)
Acquisition of additional interest in a subsidiary		**(10,227)**	(3,790)
Disposal of subsidiaries	38	**(8,021)**	—
Prepaid lease payments paid		**(4,806)**	—
Purchase of an available-for-sale investment		**(1,705)**	(15,669)
Proceeds on disposal of property, plant and equipment		**14,612**	13,113
Interest received		**9,751**	6,743
Acquisition of additional interest in an associate		**—**	(22,250)
Proceed on termination of a derivative financial instrument		**—**	6,300
NET CASH USED IN INVESTING ACTIVITIES		**(1,011,735)**	(441,385)
FINANCING ACTIVITIES			
Repayment of unsecured bank loans		**(1,134,600)**	(1,348,091)
Dividend paid		**(306,992)**	(76,906)
Repayment of loan from a related company		**(113,636)**	(1,062)
Interest paid		**(69,916)**	(109,327)
New unsecured bank loans raised		**1,328,782**	996,668
Capital contribution by the minority shareholder of a subsidiary		**34,092**	17,375
Loan raised from a jointly controlled entity		**28,409**	—
Loan raised from a related company		**—**	113,636
Shares repurchased		**—**	(6,422)
Dividend paid to the minority shareholder of a subsidiary		**—**	(1,975)
NET CASH USED IN FINANCING ACTIVITIES		**(233,861)**	(416,104)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**322,101**	658,804
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,121,062**	436,092
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**—**	26,166
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,443,163**	1,121,062

1. GENERAL

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

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

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

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

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

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

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments, other than certain changes to the identification and reporting of segments as described in note 7.

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods. In the current year, the Group has not capitalised any borrowing costs in accordance with HKAS 23 (Revised 2007).

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[5]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

[1] Effective for annual periods beginning on or after 1 July 2009.
[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 February 2010.
[5] Effective for annual periods beginning on or after 1 January 2010.
[6] Effective for annual periods beginning on or after 1 July 2010.
[7] Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Business combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

Acquisition of additional interest in a subsidiary

Additional interest in a subsidiary is measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the net assets acquired is accounted for as goodwill. Any excess of the net assets acquired over the consideration is recognised immediately in profit or loss.

Goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

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

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

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

Prepaid lease payments

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

Intangible assets

Intangible assets acquired separately

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Research and development expenditure

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

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

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

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

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

Investments in subsidiaries

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

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate *(continued)*

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associate.

Jointly controlled entity

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

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

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

Inventories

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

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

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

Effective interest method

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

Loans and receivables

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

Available-for-sale financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Financial liabilities

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

Equity instruments

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

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

Derivative financial instrument

Derivative is initially recognised at fair value at the date a derivative contract is entered into and is subsequently remeasured to its fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial guarantee contracts

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

Derecognition

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

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

Revenue recognition

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

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

Service income is recognised when services are rendered.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

Retirement benefit costs

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

Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight-line basis.

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tax credits

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

Foreign currencies

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

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

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

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

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

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at 31 December 2009 was HK$310,973,000, of which HK$160,130,000 was included in the goodwill reserve. Details of the recoverable amount calculation are disclosed in note 20.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in notes 27, 28, 29 and 30, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	**3,205,098**	2,236,352	**1,165,236**	1,086,071
Available-for-sale investments	**7,770**	5,307	**—**	—
Financial liabilities				
Amortised cost	**3,313,649**	3,009,687	**726,900**	620,900

6b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

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

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk (continued)

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

	THE GROUP				THE COMPANY			
	Liabilities		Assets		Liabilities		Assets	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HKD	**395,400**	500,000	**14,595**	83,404	**395,400**	500,000	**9,876**	77,291
USD	**331,500**	120,900	**433,946**	281,650	**331,500**	120,900	**18,135**	601

Sensitivity analysis

The following tables detail the sensitivity of the Group and the Company to a 5% (2008: 5%) increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit before tax where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before tax and the balances below would be negative.

	THE GROUP						THE COMPANY					
	HKD Impact			USD Impact			HKD Impact			USD Impact		
	2009	2008		**2009**	2008		**2009**	2008		**2009**	2008	
	HK$'000	*HK$'000*		***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*	
Profit before tax	**18,134**	19,838	*(i)*	**(4,878)**	(7,655)	*(ii)*	**18,358**	20,129	*(i)*	**14,922**	5,729	*(ii)*

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

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate bank loans and loans from a related company/a jointly controlled entity (see notes 28, 29 and 30 for details of these loans), which are raised from the banks, a related company and a jointly controlled entity by the subsidiaries in the PRC. In relation to these fixed-rate loans, the Group aims to keep loans at rates that are comparable to those in the market. In order to achieve this result, the Group negotiated with the banks and entered into various revolving loans such that the interest rates associated with the loans are more or less variable. In this regard, the directors of the Company consider that the Group's fair value interest rate risk is minimised.

The Group and the Company is also exposed to cash flow interest rate risk primarily in relation to the floating-rate bank loans (see note 28 for details of these loans). It is the policy of the Group and the Company to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances also expose the Group and the Company to cash flow interest rate risk due to the fluctuation of the prevailing interest rates.

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's and the Company's profit before tax for the year ended 31 December 2009 would decrease/increase by HK$5,339,000 (2008: HK$3,105,000) and HK$3,635,000 (2008: HK$3,105,000), respectively.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(iii) Other price risk

The Group is exposed to other price risk through its available-for-sale listed equity investment (note 22). The directors of the Company are of the opinion that such investment is held for long-term strategic purpose and management would take necessary action to mitigate the risk underlined should the needs arise. In addition, the directors consider the effect of changes in equity price is insignificant and therefore, no sensitivity analysis is presented.

Credit risk

As at 31 December 2009, the maximum exposure to credit risk by the Group and the Company which will cause a financial loss due to failure to discharge an obligation by the counterparties is arising from:

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

— the amounts of contingent liabilities in relating to financial guarantees issued by the Group and the Company as disclosed in note 42.

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

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

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

Liquidity risk

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2009, the Group had available unutilised bank loan facilities of HK$288,636,000 (2008: HK$406,873,000). Details of which are set out in note 28.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

THE GROUP

2009

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

THE GROUP (continued)

2008

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables		413,288	420,694	394,565	—	1,228,547	1,228,547
Bills payables		51,136	71,591	130,682	—	253,409	253,409
Trade payables due to a related company		17,711	—	—	—	17,711	17,711
Amounts due to related companies		14,375	—	—	—	14,375	14,375
Unsecured bank loans							
— fixed-rate	7.75	—	18,447	485,513	305,364	809,324	752,727
— floating-rate	3.25	—	51,625	51,625	537,829	641,079	620,900
Loans from a related company							
— current		8,382	—	—	—	8,382	8,382
— non-current	7.50	—	—	—	122,159	122,159	113,636
		504,892	562,357	1,062,385	965,352	3,094,986	3,009,687

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

THE COMPANY

2009

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

2008

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Unsecured bank loans							
— floating-rate	3.25	—	51,625	51,625	537,829	641,079	620,900

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

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

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value

The fair value of available-for-sale investment traded in an active liquid market is determined with reference to quoted market bid price (i.e. level 1 fair value measurements under HKFRS 7).

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

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

7. REVENUE AND SEGMENT INFORMATION

	2009	2008
	HK$'000	*HK$'000*
Sale of goods	**7,013,351**	6,819,852
Service income	**18,250**	10,143
	7,031,601	6,829,995

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors) for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach.

In the past, the Group's primary reporting format was business segments. Separate segment information disclosure was made for the two divisions in antibiotics series business, namely penicillin series and cephalosporin series, in accordance with the requirements under HKAS 14. However, the chief operating decision maker reviews the financial information of the antibiotics series business in aggregate, instead of that of the two divisions separately, for the purposes of allocating resources and assessing their performance. Therefore, under HKFRS 8, the Group reports the antibiotics series business as one operating segment and the Group's reportable segments include the manufacture and sale of (i) intermediates and bulk drugs (including vitamin C series and antibiotics series (i.e. penicillin series and cephalosporin series)), (ii) finished drugs, and (iii) other pharmaceutical related businesses. Amounts reported for the prior year have been restated. Other than this change, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenue and results

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

For the year ended 31 December 2009:

	Intermediates and Bulk Drugs					
	Vitamin C series *HK$'000*	Antibiotics series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE						
External sales	2,222,093	2,419,479	2,188,596	201,433	—	7,031,601
Inter-segment sales	7,704	574,451	—	14,289	(596,444)	—
TOTAL REVENUE	2,229,797	2,993,930	2,188,596	215,722	(596,444)	7,031,601
Inter-segment sales are charged at prevailing market rates.						
SEGMENT PROFIT	1,119,996	32,516	142,169	12,029		1,306,710
Unallocated income						9,751
Unallocated expenses						(145,898)
Operating profit						1,170,563
Share of results of a jointly controlled entity						1,035
Net gain on disposal of subsidiaries						24,128
Finance costs						(69,916)
Profit before tax						1,125,810
Income tax expense						(142,776)
Profit for the year						983,034

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2008:

	Intermediates and Bulk Drugs					
	Vitamin C series *HK$'000*	Antibiotics series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE						
External sales	2,156,731	2,606,899	1,988,677	77,688	—	6,829,995
Inter-segment sales	2,338	721,917	—	6,472	(730,727)	—
TOTAL REVENUE	2,159,069	3,328,816	1,988,677	84,160	(730,727)	6,829,995
Inter-segment sales are charged at prevailing market rates.						
SEGMENT PROFIT (LOSS)	977,500	225,876	124,097	(3,213)		1,324,260
Unallocated income						6,743
Unallocated expenses						(112,916)
Operating profit						1,218,087
Share of results of a jointly controlled entity						1,442
Share of results of an associate						1,362
Gain on termination of a derivative financial instrument						6,851
Impairment loss on an available-for-sale investment						(10,362)
Finance costs						(109,367)
Profit before tax						1,108,013
Income tax expense						(160,983)
Profit for the year						947,030

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of interest income, central administration costs, central advertising costs, share of results of a jointly controlled entity and an associate, gain on termination of a derivative financial instrument, net gain on disposal of subsidiaries, impairment loss on an available-for-sale investment and finance costs. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

Segment assets

	2009 HK$'000	2008 HK$'000
Intermediates and Bulk Drugs:		
Vitamin C series	**1,355,225**	1,386,648
Antibiotics series	**4,440,124**	3,986,625
Finished Drugs	**1,275,160**	1,186,362
Others	**366,918**	187,728
Total segment assets	**7,437,427**	6,747,363
Unallocated	**1,520,107**	1,156,043
Consolidated total assets	**8,957,534**	7,903,406

Segment liabilities

	2009 HK$'000	2008 HK$'000
Intermediates and Bulk Drugs:		
Vitamin C series	**281,661**	275,767
Antibiotics series	**1,098,796**	835,450
Finished Drugs	**404,965**	504,977
Others	**76,910**	34,870
Total segment liabilities	**1,862,332**	1,651,064
Unallocated	**1,765,739**	1,669,147
Consolidated total liabilities	**3,628,071**	3,320,211

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

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2009:

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

For the year ended 31 December 2008:

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	Antibiotics series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Sub-total *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Addition to non-current assets *(note)*	26,968	348,949	48,320	61,101	485,338	726	486,064
Depreciation and amortisation	134,216	287,010	44,598	5,143	470,967	269	471,236

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

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

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

	2009	2008
	HK$'000	*HK$'000*
The PRC	**4,422,439**	4,401,791
Asia other than the PRC	**1,291,746**	1,116,506
Americas	**681,762**	641,922
Europe	**552,623**	593,684
Others	**83,031**	76,092
	7,031,601	6,829,995

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

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

8. GAIN ON TERMINATION OF A DERIVATIVE FINANCIAL INSTRUMENT

This represented the gain on early termination of a structured interest rate swap with a notional amount of HK$100,000,000 and a tenure of 4 years (i.e. mature on 22 October 2011) in April 2008.

9. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest on:		
— bank loans wholly repayable within five years	**56,251**	89,630
— loan from a related company wholly repayable within five years *(note 29)*	**1,662**	4,024
— loan from a jointly controlled entity wholly repayable within five years *(note 30)*	**767**	—
— discounted bills	**7,131**	11,014
Bank loan arrangement fees	**4,105**	4,659
Imputed interest expenses on interest-free loans from a related company *(note 29)*	**—**	40
	69,916	109,367

10. PROFIT BEFORE TAX

	2009	2008
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including those of directors	**528,256**	492,117
Contribution to retirement benefit schemes, including those of directors	**61,704**	57,819
Total staff costs	**589,960**	549,936
Amortisation of intangible assets (included in cost of sales)	**22,686**	23,482
Amortisation of prepaid lease payments	**6,271**	5,736
Depreciation of property, plant and equipment	**473,234**	442,018
Total depreciation and amortisation	**502,191**	471,236
Auditor's remuneration	**2,000**	1,800
Impairment loss on trade receivables (included in administrative expenses)	**5,000**	2,000
Interest income	**(9,751)**	(6,743)
Loss on disposal/write-off of property, plant and equipment (included in other expenses)	**11,229**	66,045
Net foreign exchange losses	**5,011**	25,964
Research and development expenditure recognised as an expense (included in other expenses)	**70,787**	43,674

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

11. INCOME TAX EXPENSE

	2009	2008
	HK$'000	*HK$'000*
The tax charge comprises:		
PRC Enterprise Income Tax		
— current year	**181,058**	165,831
— overprovision in prior years	**(5,961)**	(449)
— tax credits	**(47,682)**	(19,889)
	127,415	145,493
Deferred taxation *(note 31)*	**15,361**	15,490
	142,776	160,983

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

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

a. Tax credits of HK$46,786,000 (2008: HK$19,011,000) resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company in the PRC. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current tax charges of the relevant subsidiaries.

b. Tax credit of HK$896,000 (2008: HK$878,000) resulted from a subsidiary of the Company established in the PRC which has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to a PRC subsidiary of the Company.

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

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

11. INCOME TAX EXPENSE *(continued)*

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

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

	2009	2008
	HK$'000	*HK$'000*
Profit before tax	**1,125,810**	1,108,013
Tax at the domestic income tax rate of 25%	**281,453**	277,003
Tax effect of income not taxable for tax purpose	**(11,901)**	(9,349)
Tax effect of expenses not deductible for tax purpose	**21,883**	25,347
Tax effect of share of results of a jointly controlled entity	**(259)**	(360)
Tax effect of share of results of an associate	**—**	(341)
Tax effect of tax losses not recognised	**21,061**	6,892
Utilisation of tax losses previously not recognised	**(22,723)**	(15,280)
Effect of tax exemption and relief granted to PRC subsidiaries	**(108,456)**	(118,081)
Tax credits granted to PRC subsidiaries	**(47,682)**	(19,889)
Overprovision in prior years	**(5,961)**	(449)
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries	**15,361**	15,490
Tax charge for the year	**142,776**	160,983

Details of deferred taxation and unused tax losses are set out in note 31.

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 12 (2008: 15) directors were as follows:

2009

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

2008

	Cai Dongchen HK$'000	Yue Jin HK$'000	Feng Zhenying HK$'000	Chak Kin Man HK$'000	Pan Weidong HK$'000	Zhao John Huan HK$'000	Wang Shunlong HK$'000	Ji Jianming HK$'000	Li Zhibiao HK$'000	Zhang Zheng HK$'000	Lee Ka Sze, Carmelo HK$'000	Huo Zhenxing HK$'000	Qi Moujia HK$'000	Guo Shichang HK$'000	Chan Siu Keung, Leonard HK$'000	Total HK$'000
Fees	60	60	60	60	60	–	–	60	60	60	300	66	66	66	150	1,128
Other emoluments:																
Salaries and other benefits	4,335	477	454	1,855	472	–	–	745	516	387	–	–	–	–	–	9,241
Contribution to retirement benefit schemes	385	20	20	171	20	–	–	20	40	28	–	–	–	–	–	704
Performance related incentive payment *(note)*	14,000	3,500	3,000	3,000	3,500	–	–	1,000	500	500	–	–	–	–	–	29,000
Total emoluments	18,780	4,057	3,534	5,086	4,052	–	–	1,825	1,116	975	300	66	66	66	150	40,073

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

No directors waived any emoluments in the years ended 31 December 2008 and 2009.

13. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group in 2008 and 2009 were all directors of the Company and details of their emoluments are included in note 12 above.

14. DIVIDEND

	2009	2008
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
2008 final dividend of HK20 cents (2008: 2007 final dividend of HK5 cents) per share	**306,992**	76,906

A final dividend of HK24 cents per share (2008: HK20 cents per share) in respect of the year ended 31 December 2009 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for the year ended 31 December 2009 is based on the profit for the year attributable to the owners of the Company of HK$970,739,000 (2008: HK$940,560,000) and 1,534,960,661 shares in issue (2008: 1,537,782,278 weighted average number of ordinary shares) during the year.

No diluted earnings per share is presented for the years ended 31 December 2008 and 2009 as there were no potential ordinary shares in issue during both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
COST						
At 1 January 2008	1,256,940	3,857,398	21,273	27,433	102,622	5,265,666
Exchange adjustments	85,724	257,898	1,366	1,815	6,273	353,076
Additions	13,100	49,343	3,961	3,195	280,874	350,473
Transfers	19,372	48,946	790	—	(69,108)	—
Acquisition of subsidiaries *(note 37)*	31,152	45,688	441	1,355	803	79,439
Disposals/write-off	(184)	(256,020)	(1,472)	(1,375)	—	(259,051)
At 31 December 2008	**1,406,104**	**4,003,253**	**26,359**	**32,423**	**321,464**	**5,789,603**
Additions	**21,299**	**92,168**	**2,432**	**13,150**	**465,175**	**594,224**
Transfers	**83,918**	**193,255**	**85**	**—**	**(277,258)**	**—**
Acquisition of subsidiaries *(note 37)*	**150,062**	**173,959**	**3,491**	**4,039**	**40,757**	**372,308**
Disposal of subsidiaries *(note 38)*	**(57,281)**	**(110,473)**	**(4,098)**	**(1,474)**	**(17,738)**	**(191,064)**
Disposals/write-off	**(44)**	**(71,228)**	**(203)**	**(1,687)**	**—**	**(73,162)**
At 31 December 2009	**1,604,058**	**4,280,934**	**28,066**	**46,451**	**532,400**	**6,491,909**
DEPRECIATION						
At 1 January 2008	225,723	1,365,022	10,975	15,662	—	1,617,382
Exchange adjustments	16,741	94,096	688	1,078	—	112,603
Provided for the year	68,306	364,216	4,282	5,214	—	442,018
Acquisition of subsidiaries *(note 37)*	2,738	12,363	239	293	—	15,633
Eliminated on disposals/write-off	—	(177,307)	(1,376)	(659)	—	(179,342)
At 31 December 2008	**313,508**	**1,658,390**	**14,808**	**21,588**	**—**	**2,008,294**
Provided for the year	**75,906**	**385,734**	**4,772**	**6,822**	**—**	**473,234**
Acquisition of subsidiaries *(note 37)*	**15,232**	**45,883**	**1,182**	**2,126**	**—**	**64,423**
Disposal of subsidiaries *(note 38)*	**(13,186)**	**(36,734)**	**(1,844)**	**(199)**	**—**	**(51,963)**
Eliminated on disposals/write-off	**(3)**	**(45,751)**	**(175)**	**(1,139)**	**—**	**(47,068)**
At 31 December 2009	**391,457**	**2,007,522**	**18,743**	**29,198**	**—**	**2,446,920**
CARRYING VALUES						
At 31 December 2009	**1,212,601**	**2,273,412**	**9,323**	**17,253**	**532,400**	**4,044,989**
At 31 December 2008	1,092,596	2,344,863	11,551	10,835	321,464	3,781,309

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

THE GROUP *(continued)*

Certain buildings of the Group in the PRC were not granted formal title of ownership. At 31 December 2009, the aggregate carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$93,754,000 (2008: HK$43,154,000). In the opinion of the directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At 1 January 2008	2,230	1,005	3,235
Additions	726	—	726
Write-off	(1,375)	—	(1,375)
At 31 December 2008 and 31 December 2009	**1,581**	**1,005**	**2,586**
DEPRECIATION			
At 1 January 2008	2,000	1,005	3,005
Provided for the year	269	—	269
Eliminated on write-off	(1,289)	—	(1,289)
At 31 December 2008	**980**	**1,005**	**1,985**
Provided for the year	**214**	**—**	**214**
At 31 December 2009	**1,194**	**1,005**	**2,199**
CARRYING VALUES			
At 31 December 2009	**387**	**—**	**387**
At 31 December 2008	601	—	601

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

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

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

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments with a carrying value of HK$265,104,000 (2008: HK$204,673,000) represent leasehold land in the PRC held under medium-term land use rights. An amount of HK$7,605,000 (2008: HK$6,149,000) is classified under current assets for reporting purpose.

18. INTANGIBLE ASSETS

	Technical know-how	Development costs	Trademarks and certificates	Utility rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2008	94,349	54,133	—	78,347	226,829
Exchange adjustments	6,464	3,735	—	5,345	15,544
Additions	23,661	26,752	—	74	50,487
Write-off	(83,374)	(29,856)	—	—	(113,230)
At 31 December 2008	**41,100**	**54,764**	**—**	**83,766**	**179,630**
Additions	**3,166**	**18,228**	**—**	**—**	**21,394**
Write-off	**(3,410)**	**(1,321)**	**—**	**—**	**(4,731)**
Acquisition of subsidiaries *(note 37)*	**34,469**	**—**	**34,193**	**—**	**68,662**
Disposal of subsidiaries *(note 38)*	**(6,104)**	**—**	**—**	**—**	**(6,104)**
At 31 December 2009	**69,221**	**71,671**	**34,193**	**83,766**	**258,851**

18. INTANGIBLE ASSETS *(continued)*

	Technical know-how	Development costs	Trademarks and certificates	Utility rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
AMORTISATION					
At 1 January 2008	82,357	28,213	—	57,383	167,953
Exchange adjustments	5,860	2,155	—	4,077	12,092
Provided for the year	6,119	9,154	—	8,209	23,482
Eliminated on write-off	(83,374)	(29,856)	—	—	(113,230)
At 31 December 2008	**10,962**	**9,666**	**—**	**69,669**	**90,297**
Provided for the year	**3,485**	**9,500**	**1,495**	**8,206**	**22,686**
Eliminated on write-off	**(3,410)**	**(1,321)**	**—**	**—**	**(4,731)**
Disposal of subsidiaries *(note 38)*	**(3,929)**	**—**	**—**	**—**	**(3,929)**
At 31 December 2009	**7,108**	**17,845**	**1,495**	**77,875**	**104,323**
CARRYING VALUES					
At 31 December 2009	**62,113**	**53,826**	**32,698**	**5,891**	**154,528**
At 31 December 2008	30,138	45,098	—	14,097	89,333

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

Development costs mainly represent costs incurred for the development of the Group's new products, including clinical experiments and tests conducted by hospital.

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

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

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

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

19. GOODWILL

	HK$'000
COST	
At 1 January 2008	100,718
Exchange adjustments	3,065
Arising on acquisition of subsidiaries *(note 37)*	624
Arising on acquisition of additional interest in a subsidiary	2,346
At 31 December 2008	**106,753**
Arising on acquisition of subsidiaries *(note 37)*	**39,930**
Arising on acquisition of additional interest in a subsidiary	**4,160**
At 31 December 2009	**150,843**

Particulars regarding impairment testing on goodwill are disclosed in note 20.

20. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill with indefinite useful lives as set out in note 19 and goodwill reserve has been allocated to two individual cash generating units as follows:

	HK$'000
Business segment of	
— finished drugs ("Unit A")	**78,400**
— antibiotics ("Unit B")	**232,573**
	310,973

During the year ended 31 December 2009, management of the Group determines that there is no impairment of the above-mentioned cash generating units containing the goodwill. The basis of the recoverable amounts of the cash generating units and their major underlying assumptions are summarised below:

The recoverable amounts of both units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 7.14% per annum, for Unit A and Unit B, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of these units.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2009	2008
	HK$'000	HK$'000
Cost of unlisted investment in a jointly controlled entity	**19,985**	19,985
Share of post-acquisition profits, net of dividends received or receivable	**3,991**	2,956
	23,976	22,941

At 31 December 2008 and 2009, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

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

	2009	2008
	HK$'000	HK$'000
Current assets	**58,293**	47,941
Non-current assets	**50,751**	56,685
Current liabilities	**(71,827)**	(81,464)
Non-current liabilities	**(14,205)**	(1,185)
Income recognised in profit or loss	**128,445**	118,149
Expenses recognised in profit or loss	**(127,410)**	(116,707)

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2009	2008
	HK$'000	*HK$'000*
Non-current:		
Equity securities listed in the United States	6,065	5,307
Unlisted securities	1,705	—
Total	7,770	5,307

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

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

23. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances and pledged bank deposits carry interest at market interest rates, ranging from 0.01% to 1.71% (2008: 0.01% to 1.25%) per annum.

As at 31 December 2009, the Group had bank deposits of HK$50,637,000 (2008: Nil) which were pledged to banks to secure short-term banking facilities granted to the Group and the deposits are therefore classified as current assets.

As at 31 December 2008, the Group also had bank deposits of HK$2,048,000 which were pledged to banks to secure banking facilities for the acquisition of production facilities and the deposits were classified as non-current assets.

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

	THE GROUP		THE COMPANY	
	HKD	USD	HKD	USD
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2009	14,595	43,913	9,876	18,135
As at 31 December 2008	83,404	26,742	77,291	601

24. INVENTORIES

	2009 *HK$'000*	2008 *HK$'000*
Raw materials	**211,912**	119,676
Work in progress	**294,331**	294,835
Finished goods	**472,282**	910,200
	978,525	1,324,711

25. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	2009 *HK$'000*	2008 *HK$'000*
Trade receivables	**848,251**	716,367
Less: allowance for doubtful debts	**(8,726)**	(6,012)
	839,525	710,355
Bills receivables	**725,750**	297,382
	1,565,275	1,007,737
Other receivables	**226,442**	197,739
	1,791,717	1,205,476

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

	2009 *HK$'000*	2008 *HK$'000*
0 to 90 days	**1,525,668**	963,307
91 to 180 days	**37,102**	41,837
181 to 365 days	**2,505**	2,593
	1,565,275	1,007,737

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

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

	USD
	HK$'000
As at 31 December 2009	**390,033**
As at 31 December 2008	254,908

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

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$39,607,000 (2008: HK$44,430,000) which are past due (i.e. aged over 90 days) at the end of the reporting period for which the Group has not provided for impairment loss after making reference to their subsequent settlement pattern. The Group does not hold any collateral over these balances.

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

Movements in the allowance for doubtful debts

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	**6,012**	7,009
Impairment loss on trade receivables	**5,000**	2,000
Amounts written-off as uncollectible	**(2,286)**	(2,997)
Balance at end of the year	**8,726**	6,012

26. RELATED AND CONNECTED PARTIES DISCLOSURES

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

(i) Related and connected parties

Name of company	Nature of transactions/balances	2009 HK$'000	2008 HK$'000
Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), a fellow subsidiary of the Company wholly-owned by Massive Giant, and its subsidiaries ("the SPG Group")	Purchase of raw materials *(note a)*	**99,071**	212,895
	Sales of vitamin C and related products *(note b)*	**7,790**	—
	Product processing services *(note c)*	**10,328**	—
	Sales of antibiotic products	**—**	—
	Rental expenses *(note d)*	**7,662**	6,950
	Interest expenses on loans from a related company *(note e)*	**1,662**	4,064
	Balance due to the SPG Group:		
	— trade payables *(note f)*	**(829)**	(17,711)
	— other payables *(note f)*	**(7,057)**	(14,375)
	— short-term loans *(note e)*	**—**	(8,382)
	— long-term loan *(note e)*	**—**	(113,636)

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

During the year ended 31 December 2008, a facility in the aggregate amount of RMB510,000,000 was made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB250,000,000 and RMB260,000,000, respectively. The facility was a general working capital facility for one year from 17 June 2008. As a condition under the facility, Massive Giant had pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. The facility has expired during the current year. At 31 December 2008, the extent of such facility utilised by the Group amounted to RMB50,000,000.

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

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

As at 31 December 2009, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of RMB630,000,000 (2008: RMB362,400,000) granted to the Group. At 31 December 2009, the extent of utilisation by the Group amounted to RMB630,000,000 (2008: RMB362,400,000).

On 9 March 2009, Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Inner Monogolia) Co., Ltd. ("Inner Mongolia Zhongrun"), a wholly-owned subsidiary of the Company, entered into an agreement to acquire 49% interest in Shijiazhuang Pharma Group (Inner Mongolia) Zhongxing Huanbao Co., Ltd. ("Zhongxing Huanbao") from the minority shareholder of Zhongxing Huanbao, Beijing Wandafei Technology Trading Company Limited, for a consideration of RMB9,000,000 (equivalent to HK$10,227,273). Upon the completion of the acquisition, Zhongxing Huanbao became a wholly-owned subsidiary of the Company. Details of the acquisition are set out in the announcement of the Company dated 9 March 2009.

On 22 May 2009, the Company entered into an asset swap agreement (the "Asset Swap Agreement") with China Charmaine Pharmaceutical Company Limited ("China Charmaine"), a company wholly-owned by SPG. Pursuant to the Asset Swap Agreement, the Company agreed to transfer its 100% equity interest in a subsidiary, Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd. ("NBP"), to China Charmaine and China Charmaine agreed to transfer its 100% equity interest in Hebei Hong Yuan Chemical Co., Ltd. ("Hong Yuan") to the Company for a consideration of HK$125,000,000. NBP is principally engaged in the manufacture and sale of pharmaceutical products, mainly butylphthalide soft capsule, a medicine for treating ischemic stroke. Hong Yuan is principally engaged in the manufacture and sale of chemical products which are raw materials for the Group's production. Further details are set out in note 37 and an announcement of the Company dated 22 May 2009.

On 23 October 2009, Shijiazhuang Pharma Group Zhongnuo Pharmaceutical Co., Ltd. ("Zhongnuo"), a wholly-owned subsidiary of the Company, entered into an agreement to dispose of its entire 100% equity interest in Shijiazhuang Pharma Group Zhongchen Pharmaceutical Co., Ltd. to SPG for a consideration of RMB8,000,000 (equivalent to HK$9,091,000). Details of this transaction are set out in note 38 to the consolidated financial statements and an announcement of the Company dated 23 October 2009.

On 30 November 2009, CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd ("CSPC Cenway"), a 90% owned subsidiary of the Company, entered into an agreement to acquire 100% equity interest in Beijing Cenway Pharmaceutical Technology Research Co., Ltd. ("BJ Cenway") from the minority shareholder of CSPC Cenway, Cenway (Tianjin) Pharmaceutical Co., Ltd., for a consideration of RMB4,477,500 (equivalent to HK$5,088,000). Details of this transaction are set out in note 37 to the consolidated financial statements.

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

(ii) Other related parties

Name of company	Nature of transactions/balances	2009 HK$'000	2008 HK$'000
Huarong, a jointly controlled entity of the Group	Sale of raw materials *(note g)*	**—**	5
	Purchase of raw materials *(note g)*	**56,192**	66,779
	Provision of utility services by the Group *(note h)*	**15,140**	14,416
	Interest expenses on loan from a jointly controlled entity *(note e)*	**767**	—
	Balance due from Huarong:		
	— dividend receivables	**6,122**	6,122
	— other receivables *(note f)*	**6,007**	6,815
	— trade receivables *(note f)*	**5,810**	547
Siping City Fine Chemicals Product Company Limited ("Siping"), a former associate of the Group	Sale of finished goods *(note g)*	**—**	13,929

(iii) Connected parties

Name of company	Nature of transactions/balances	2009 HK$'000	2008 HK$'000
Guangdong Titan Pharmaceutical Co. Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of the minority shareholder of Siping	Sale of finished goods *(note i)*	**86,440**	34,344
	Balance due from Guangdong Titan — trade receivables *(note f)*	**28,283**	23,063
Shanxi Yinhu Pharmaceutical Co. Ltd. ("Shanxi Yinhu"), the minority shareholder of a subsidiary	Balance due to Shanxi Yinhu — other payables *(note f)*	**(5,022)**	—
Cenway, the minority shareholder of a subsidiary	Balance due to Cenway — other payables *(note f)*	**(32,427)**	—

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

(iv) Remuneration of key management personnel

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

	2009	2008
	HK$'000	*HK$'000*
Short-term benefits	**31,103**	38,721
Post-employment benefits	**633**	704
	31,736	39,425

Notes:

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

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

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

As detailed in note 37, the Group entered into the Asset Swap Agreement to acquire 100% equity interest in Hong Yuan from the SPG Group. Subsequent to the acquisition, the similar transactions were no longer accounted for as connected transactions of the Group.

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

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

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

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

Notes: (continued)

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

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

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

(d) On 5 July 2005, Zhongnuo, a wholly-owned subsidiary of the Company, entered into a lease agreement with SPG whereby Zhongnuo leased two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of three years commencing on 5 July 2005 with the monthly rental of RMB408,595. Upon the expiry of the lease agreement on 4 July 2008, Zhongnuo has continued to rent the premises from SPG for an eight months period to 4 March 2009 by entering into a supplementary agreement with SPG, with the monthly rental remained unchanged.

On 5 March 2009, Zhongnuo and SPG renewed the agreement for another term of three years commencing on 5 March 2009. The monthly rental was revised from RMB408,595 to RMB427,108.

On 20 July 2002, Zhongnuo entered into another agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised on 1 August 2008 for a term of three years with the monthly rental revising from RMB92,500 to RMB138,033.

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

(e) Details of these loans are set out in notes 29 and 30.

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

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

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

(i) On 29 July 2008, Siping and Guangdong Titan entered into an agreement in relation to the sales of pharmaceutical intermediate products, which constitute connected transactions, for a term commencing from 29 July 2008 to 28 July 2011. By entering into the agreement, the Group would be able to maintain business relationship with its existing customer, Guangdong Titan, for sales of its products.

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

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

27. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**663,594**	638,593
Bills payables	**357,045**	253,409
	1,020,639	892,002
Other payables	**834,016**	764,772
	1,854,655	1,656,774

Included in other payables are payables for the acquisition of property, plant and equipment of HK$430,892,000 (2008: HK$333,582,000), receipts in advance from customers of HK$87,759,000 (2008: HK$72,524,000), accruals and payables of various nature of HK$315,365,000 (2008: HK$358,666,000).

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

	2009	2008
	HK$'000	*HK$'000*
0 to 90 days	**863,773**	745,560
91 to 180 days	**63,293**	46,094
181 to 365 days	**52,140**	37,208
More than 365 days	**41,433**	63,140
	1,020,639	892,002

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

28. UNSECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured				
— fixed-rate RMB bank loans	**500,000**	752,727	**—**	—
— floating-rate RMB bank loans	**340,909**	—	**—**	—
— floating-rate HKD bank loans	**395,400**	500,000	**395,400**	500,000
— floating-rate USD bank loans	**331,500**	120,900	**331,500**	120,900
	1,567,809	1,373,627	**726,900**	620,900
The above bank loans are repayable as follows:				
Within one year	**880,782**	568,636	**312,600**	100,000
More than one year, but not more than two years	**452,482**	512,451	**384,300**	228,360
More than two years, but not more than five years	**234,545**	292,540	**30,000**	292,540
	1,567,809	1,373,627	**726,900**	620,900
Less: Amounts due within one year shown under current liabilities	**(880,782)**	(568,636)	**(312,600)**	(100,000)
Amounts due after one year	**687,027**	804,991	**414,300**	520,900

The ranges of effective interest rates of the Group's fixed-rate RMB bank loans, floating-rate RMB bank loans, floating-rate HKD bank loans and floating-rate USD bank loans are 3.51% to 7.56% (2008: 5.31% to 8.22%) per annum, 4.61% (2008: Nil) per annum, 0.64% to 3.26% (2008: 0.69% to 6.05%) per annum and 2.48% to 2.72% (2008: 2.72%) per annum, respectively. The floating-rate HKD, RMB and USD bank loans are subject to interest at HIBOR, discounted PRC benchmark rate and LIBOR plus a spread, respectively.

28. UNSECURED BANK LOANS *(continued)*

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

	THE GROUP AND THE COMPANY	
	USD	HKD
	HK$'000	*HK$'000*
As at 31 December 2009	**331,500**	**395,400**
As at 31 December 2008	120,900	500,000

At the end of the reporting period, the Group had undrawn loan facilities to the extent of HK$50,000,000 (2008: HK$54,600,000) and HK$238,636,000 (2008: HK$352,273,000) in respect of floating-rate HKD/USD bank loans and fixed-rate RMB bank loans, respectively.

29. LOANS FROM A RELATED COMPANY

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

	2009	2008
	HK$'000	*HK$'000*
Current liability:		
— interest-free loans	—	8,382
Non-current liability:		
— a loan which was interest bearing at the rate of 7.5% per annum	—	113,636

During the year, the Group fully repaid the above interest bearing loan. The interest-free loans as at 31 December 2008 were settled through the disposal of a subsidiary as detailed in note 38.

30. LOAN FROM A JOINTLY CONTROLLED ENTITY

The loan due to Huarong is unsecured, interest bearing at the rate of 5.4% per annum and will be fully repayable in June 2011.

31. DEFERRED TAXATION

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of HK$15,361,000 (2008: HK$15,490,000) has been provided for the current year in the consolidated financial statements in respect of the temporary differences attributable to such profits.

As set out in note 37, a deferred tax liability of HK$4,472,000 has been recognised for the year as a result of the fair value adjustments arising from acquisition of a subsidiary.

At the end of the reporting period, the Group had unused tax losses of HK$101,241,000 (2008: HK$107,890,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2014.

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

32. SHARE CAPITAL

	Number of shares	**Share capital**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 December 2008 and 2009	3,000,000,000	300,000

	Number of shares		**Share capital**	
	2009	2008	**2009**	2008
			HK$'000	*HK$'000*
Issued and fully paid:				
At beginning of year	**1,534,960,661**	1,538,124,661	**153,496**	153,812
Shares repurchased	**—**	(3,164,000)	**—**	(316)
At end of year	**1,534,960,661**	1,534,960,661	**153,496**	153,496

32. SHARE CAPITAL *(continued)*

During the year ended 31 December 2008, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
October 2008	1,640,000	1.41	1.33	2,255
December 2008	1,524,000	2.76	2.68	4,167

The Company repurchased 3,164,000 ordinary shares of the Company on the Stock Exchange for a total consideration of HK$6,422,000. The issued share capital of the Company was reduced by the par value of the total repurchased shares and the relevant aggregate consideration was paid out from the Company's retained profits.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the current year.

33. SHARE OPTION SCHEME

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

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

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

33. SHARE OPTION SCHEME *(continued)*

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

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

34. INVESTMENTS IN SUBSIDIARIES

	2009	2008
	HK$'000	*HK$'000*
Unlisted investments, at cost	**1,444,574**	1,506,033

Particulars of the Company's subsidiaries as at 31 December 2008 and 2009 are set out in note 44.

35. AMOUNTS DUE FROM SUBSIDIARIES

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

36. RESERVES OF THE COMPANY

	Share premium	**Capital redemption reserve**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	1,116,727	—	258,055	1,374,782
Profit for the year	—	—	496,852	496,852
Shares repurchased	—	316	(6,422)	(6,106)
Final dividend for the year ended 31 December 2007	—	—	(76,906)	(76,906)
At 31 December 2008	**1,116,727**	**316**	**671,579**	**1,788,622**
Profit for the year	**—**	**—**	**221,091**	**221,091**
Final dividend for the year ended 31 December 2008	**—**	**—**	**(306,992)**	**(306,992)**
At 31 December 2009	**1,116,727**	**316**	**585,678**	**1,702,721**

37. ACQUISITION OF SUBSIDIARIES

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

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

(ii) On 28 April 2009, the Group entered into an agreement to acquire 70% equity interest in Shijiazhuang Pharma Group Yinhu Pharmaceutical Co., Ltd. ("Yinhu") from an independent third party and now the minority shareholder of Yinhu, Shanxi Yinhu, for a consideration of RMB70,000,000 (equivalent to HK$79,545,000);

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

(iv) On 30 November 2009, the Group entered into an agreement to acquire 100% equity interest in BJ Cenway from Cenway for a consideration of RMB4,477,500 (equivalent to HK$5,088,000).

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

Details of these acquired subsidiaries as set out in note 44.

37. ACQUISITION OF SUBSIDIARIES *(continued)*

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

	CSPC Cenway			Yinhu	Hong Yuan			BJ Cenway	
	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000	Acquiree's carrying amount before combination and fair value HK$'000	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000	Acquiree's carrying amount before combination and fair value HK$'000	Total HK$'000
Property, plant and equipment	182,152	2,283	184,435	43,464	73,352	4,593	77,945	2,041	307,885
Prepaid lease payments	29,479	10,385	39,864	13,213	7,627	13,292	20,919	—	73,996
Intangible assets	34,280	—	34,280	34,193	189	—	189	—	68,662
Inventories	47,887	—	47,887	20,322	19,051	—	19,051	—	87,260
Trade and other receivables	—	—	—	6,678	35,524	—	35,524	4,992	47,194
Bills receivables	—	—	—	227	47,571	—	47,571	—	47,798
Bank balances and cash	—	—	—	—	3,738	—	3,738	130	3,868
Trade and other payables	—	—	—	(28,497)	(89,976)	—	(89,976)	(25)	(118,498)
Amounts due to connected companies	(119,944)	—	(119,944)	(8,302)	—	—	—	(2,533)	(130,779)
Tax liabilities	—	—	—	—	(1,419)	—	(1,419)	—	(1,419)
Deferred tax liabilities	—	—	—	—	—	(4,472)	(4,472)	—	(4,472)
	173,854	12,668	186,522	81,298	95,657	13,413	109,070	4,605	381,495
Minority interests			(18,653)	(24,389)			—	—	(43,042)
Goodwill			881	22,636			15,930	483	39,930
			168,750	79,545			125,000	5,088	378,383
Total consideration satisfied by:									
Disposal of subsidiaries *(note 38)*			—	—			125,000	—	125,000
Cash			168,750	79,545			—	5,088	253,383
			168,750	79,545			125,000	5,088	378,383
Net cash (outflow) inflow arising on acquisitions:									
Cash consideration paid			(168,750)	(79,545)			—	(5,088)	(253,383)
Bank balances and cash acquired			—	—			3,738	130	3,868
			(168,750)	(79,545)			3,738	(4,958)	(249,515)

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

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

37. ACQUISITION OF SUBSIDIARIES *(continued)*

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

During the year ended 31 December 2008, the following acquisition took place:

On 29 July 2008, the Group further acquired 20% equity interest in its former associate, Siping, for a consideration of RMB20,000,000 (equivalent to HK$22,250,000). Upon the acquisition, Siping became a 60% owned subsidiary of the Group. This acquisition was accounted for using the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was HK$624,000.

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

	Acquiree's carrying amount and fair value *HK$'000*
Net assets acquired:	
Property, plant and equipment	63,806
Prepaid lease payments	18,328
Inventories	16,027
Trade and other receivables	41,752
Bills receivables	26,476
Trade receivables due from a fellow subsidiary	40,522
Bank balances and cash	10,583
Trade and other payables	(25,020)
Trade payables due to the Group	(39,585)
Tax liabilities	(569)
Secured bank loans	(39,045)
	113,275
Minority interests	(45,310)
Goodwill	624
	68,589
Total consideration satisfied by:	
Cash	22,250
Investment in an associate	46,339
	68,589
Net cash outflow arising on acquisition:	
Cash consideration paid	(22,250)
Bank balances and cash acquired	10,583
	(11,667)

The goodwill arising on acquisition of Siping is attributable to the anticipated future operating synergies in the Group's business of manufacture and sale of antibiotics products in the PRC after the acquisition.

38. DISPOSAL OF SUBSIDIARIES

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

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

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

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

	NBP	Zhongchen	Total
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS DISPOSED OF			
Property, plant and equipment	139,101	—	139,101
Prepaid lease payments	12,100	—	12,100
Intangible assets	2,175	—	2,175
Inventories	8,846	203	9,049
Trade and other receivables	28,931	35	28,966
Bills receivables	—	15	15
Pledged bank deposits	307	—	307
Bank balances and cash	13,988	3,124	17,112
Amounts due (to) from related companies	(72,957)	9,053	(63,904)
Trade and other payables	(21,829)	(3,148)	(24,977)
Loans from a related company	(8,382)	—	(8,382)
	102,280	9,282	111,562
Capital contribution released	(1,599)	—	(1,599)
Gain (loss) on disposal	24,319	(191)	24,128
	125,000	9,091	134,091
Total consideration satisfied by:			
Acquisition of subsidiaries *(note 37)*	125,000	—	125,000
Cash	—	9,091	9,091
	125,000	9,091	134,091
Net cash (outflow) inflow arising on disposal:			
Cash consideration received	—	9,091	9,091
Bank balances and cash disposed of	(13,988)	(3,124)	(17,112)
	(13,988)	5,967	(8,021)

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

39. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2009	2008
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of land and buildings	**13,252**	14,521

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**11,980**	12,357	**1,890**	2,356
In the second to fifth year inclusive	**8,775**	20,472	**472**	2,136
	20,755	32,829	**2,362**	4,492

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

40. CAPITAL COMMITMENTS

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

	2009	2008
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— property, plant and equipment	**279,693**	170,422
— intangible assets	**29,420**	25,339
	309,113	195,761

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

41. MAJOR NON-CASH TRANSACTIONS

As disclosed in note 37, the Group transferred its 100% equity interest in NBP to China Charmaine and China Charmaine transferred its 100% equity interest in Hong Yuan to the Group during the year under the Asset Swap Agreement. The swap constitutes a significant non-cash transaction for the year.

In addition, an amount of HK$253,000 (2008: HK$551,000) of sale proceeds on disposal of property, plant and equipment was agreed with the suppliers to set off against trade payables for the same amount.

42. CONTINGENT LIABILITIES

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

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

Submissions concerning whether the direct purchaser case may proceed as a class action were made during the year 2007 and fact discovery was concluded in October 2008. On 15 January 2009, plaintiffs and defendants agreed to a new case schedule, which bifurcates liability and damages issues and allows certain liability issues to be determined by the court first. The dates in the schedule were subsequently extended pursuant to the court's order on 27 March 2009.

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

42. CONTINGENT LIABILITIES *(continued)*

(ii) **THE GROUP**

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

THE COMPANY

At 31 December 2009, a corporate guarantee of RMB50,000,000 was given by the Company to a bank in the PRC in respect of banking facilities granted to a subsidiary of the Group. An amount of RMB50,000,000 was utilised by the subsidiary as at 31 December 2009.

43. EMPLOYEE RETIREMENT BENEFIT SCHEMES

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

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

During the year, the contributions made by the Group relating to the above arrangements were HK$61,704,000 (2008: HK$57,819,000), of which HK$710,000 (2008: HK$709,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

44. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2008 and 2009 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	100	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	100	—	Investment holding
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd. ("Zhongrun")	The PRC	Limited liability cooperative joint venture enterprise	RMB513,490,300	81.08	18.21	Manufacture and sale of pharmaceutical products
Inner Mongolia Zhongrun	The PRC	Foreign investment enterprise with limited liability	RMB273,150,000	100	—	Manufacture and sale of pharmaceutical products
Weisheng	The PRC	Foreign investment enterprise with limited liability	US$27,345,500	100	—	Manufacture and sale of pharmaceutical products
Zhongnuo	The PRC	Foreign investment enterprise with limited liability	RMB282,810,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	100	—	Provision of pharmaceutical research and development services
Shijiazhuang Pharma Group Hebei Zhongrun Huanbao Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	85	Sewage treatment
Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB18,000,000	80.42	19.58	Sewage treatment

44. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				Directly	Indirectly	
				%	%	
Shijiazhuang Pharma Group (Inner Mongolia) Zhongkang Sugar Products Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB33,000,000	—	100	Manufacture and sale of pharmaceutical products
Zhongxing Huanbao *(note 1)*	The PRC	Foreign investment enterprise with limited liability	RMB15,000,000	—	100 (2008:51)	Sewage treatment
Shijiazhuang Pharma Group (Shijiazhuang) High Medical Technology Development Co., Ltd.	The PRC	Sino-foreign equity joint venture company	RMB30,000,000	25	58.33	Provision of pharmaceutical research and development services
Siping	The PRC	Sino-foreign equity joint venture company	RMB39,529,435	60	—	Manufacture and sale of pharmaceutical products
Unigene Biotechnology Co., Ltd.	The PRC	Sino-foreign equity joint venture company	US$7,000,000	55	—	Provision of pharmaceutical research and development services
New subsidiaries in 2009:						
Yinhu	The PRC	Foreign investment enterprise with limited liability	RMB100,000,000	—	70	Manufacture and sale of pharmaceutical products
CSPC Cenway	The PRC	Foreign investment enterprise with limited liability	RMB155,000,000	—	90	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Cenway (Inner Mongolia) Pharmaceutical Co., Ltd. ("Inner Mongolia Cenway") *(note 2)*	The PRC	Foreign investment enterprise with limited liability	RMB20,000,000	—	94.9	Manufacture and sale of pharmaceutical products

44. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
BJ Cenway	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	90	Provision of pharmaceutical research and development services
Hong Yuan	The PRC	Foreign investment enterprise with limited liability	RMB10,000,000	100	—	Manufacturing and sale of pharmaceutical products
Subsidiaries disposed in 2009:						
NBP	The PRC	Foreign investment enterprise with limited liability	RMB160,000,000	100	—	Manufacture and sale of pharmaceutical products
Zhongchen	The PRC	Foreign investment enterprise with limited liability	RMB8,750,000	—	100	Manufacture and sale of pharmaceutical products

Note 1: Details of the acquisition of additional interest during the year are disclosed in note 26.

Note 2: Inner Mongolia Cenway, a company newly established during the year, is owned by CSPC Cenway as to 51% and by Inner Mongolia Zhongrun as to 49%.

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

45. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting period, Zhongrun has entered into an agreement with SPG in relation to the establishment of an equity joint venture company, Shijiazhuang Pharma Group Zhongchen Pharmaceutical Logistics Company Limited ("Zhongchen Logistics") for carrying out logistic services business. The scope of business for the Zhongchen Logistics includes the storage, sourcing and distribution of pharmaceutical products. Zhongchen Logistics is owned by Zhongrun as to 99% and by SPG as to 1%. Zhongrun has paid RMB49,500,000 to Zhongchen Logistics for the subscription. Details are set out in the announcement of the Company dated 24 February 2010.

Financial Summary

RESULTS

	Year ended 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	3,192,065	3,538,754	4,986,059	6,829,995	**7,031,601**
Cost of sales	(2,498,501)	(2,925,429)	(3,449,641)	(4,548,661)	**(4,764,308)**
Gross profit	693,564	613,325	1,536,418	2,281,334	**2,267,293**
Other income	21,157	34,814	27,278	42,834	**49,482**
Selling and distribution expenses	(182,723)	(232,511)	(379,203)	(470,787)	**(587,842)**
Administrative expenses	(287,014)	(308,094)	(471,280)	(514,493)	**(461,522)**
Other expenses	(26,754)	(6,808)	(74,822)	(120,801)	**(96,848)**
Operating profit	218,230	100,726	638,391	1,218,087	**1,170,563**
Share of results of a jointly controlled entity	(1,099)	(3,350)	(2,683)	1,442	**1,035**
Share of results of an associate	—	—	—	1,362	**—**
Net gain on disposal of subsidiaries	—	—	—	—	**24,128**
Gain on termination of a derivative financial instrument	—	—	—	6,851	**—**
Change in fair value of a derivative financial instrument	—	—	(551)	—	**—**
Impairment loss on an available-for-sale investment	—	—	—	(10,362)	**—**
Finance costs	(68,139)	(95,776)	(112,809)	(109,367)	**(69,916)**
Profit before tax	148,992	1,600	522,348	1,108,013	**1,125,810**
Income tax credit (expense)	7,301	13,763	(45,569)	(160,983)	**(142,776)**
Profit for the year	156,293	15,363	476,779	947,030	**983,034**
Attributable to:					
Owners of the Company	156,518	15,664	477,388	940,560	**970,739**
Minority interests	(225)	(301)	(609)	6,470	**12,295**
	156,293	15,363	476,779	947,030	**983,034**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share — Basic	10.18	1.02	31.04	61.16	**63.24**

Financial Summary

ASSETS AND LIABILITIES

	At 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	5,379,779	5,273,408	6,458,745	7,903,406	**8,957,534**
Total liabilities	(2,884,251)	(2,622,574)	(3,087,605)	(3,320,211)	**(3,628,071)**
Net assets	2,495,528	2,650,834	3,371,140	4,583,195	**5,329,463**
Equity attributable to owners of the Company	2,484,832	2,641,641	3,352,298	4,497,378	**5,160,284**
Minority interests	10,696	9,193	18,842	85,817	**169,179**
Total equity	2,495,528	2,650,834	3,371,140	4,583,195	**5,329,463**