利君國際醫藥

(控股)有限公司

Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2005

Annual Report

2010

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Liu Zhiyong

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Sze Wing Kin, Pierre

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Ms. Sun Xinglai

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

PricewaterhouseCoopers

WEBSITE

http://www.lijun.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Lijin International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

1. RESULTS AND DIVIDEND PAYMENT

The macro-economic situation was fairly severe since 2010. With the inflation pressure kept on increasing, the prices of energy power and raw and auxiliary materials continued to rise, and the pharmaceutical market under the new policies of medical reform was facing more intense competition. The Group achieved a significant progress in its operation through such measures in expanding the scale of production and sales of its leading branded products, increasing its market share and focusing on cost control. During the year, the Group's revenue of its principal business amounted to HK$1,971,657,000, representing an increase of 13.3% as compared with last year; among which, HK$1,182,753,000 was from Xi'an Lijun, representing an increase of 9.5% as compared with last year, and HK$788,904,000 was from Shijiazhuang No. 4 Pharma, representing an increase of 19.6% as compared with last year. Operating profit of the Group increased by 15.7% as compared to last year, amounted to HK$324,993,000. Profit attributable to equity holders of the Company increased by 20.6% to HK$260,592,000 as compared to last year.

The Board recommended the payment of a final dividend of HK$0.02 per share, and together with the interim dividend of HK$0.02 per share, total dividends for the year were HK$96,075,000 or HK$0.04 per share, representing an increase of 9.6% as compared with the total dividends for last year of HK$87,638,000.

2. REVIEW OF OPERATING RESULTS

(1) Product marketing

1. Scale expansion and optimizing the structure of intravenous infusion solutions

With production capacity expansion, the Group's intravenous infusion solutions business had further enhanced its advantages in scale, quality and cost. Sales revenue of non-PVC soft bag infusion solution and PP plastic bottle infusion solution were increased by 59.3% and 9.9% respectively as compared with last year. Sales revenue of these two infusion solutions to total sales revenue of infusion solution of the Group was 75.6%, up by 5.3% as compared with last year. Sales of therapeutical infusion solution categories also further achieved its growth, representing an increase of 1.7% as compared with last year.

Foreign trade export and processing has continued to record a growth. Currently, we have 17 categories of products registered in 45 countries and regions. Export sales have reached US$6,560,000, representing an increase of 11.6% as compared with last year.

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

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

2. **Steady development in sales of antibiotics preparation**

Through the monthly direction and assessment to the "three mandatory plans" for strengthening the marketing, distribution and end-user promotion activities, and a series of initiation of secondary distribution and end-user promotion activities, our leading branded product, Lijunsha, recorded sales revenue of HK$471,362,000, representing an increase of 7.6% as compared with last year, among which, revenue of tablets amounted to HK$362,393,000, which was of same level as last year; sales of Lijunsha granules amounted to HK$88,137,000, representing an increase of 59.5% as compared with last year.

As we have leveraged on the brand influence and focused much attention in expanding and maintaining the hospitals, clinics and end-user markets, sales of Paiqi series of products amounted to HK$133,014,000 in 2010, representing an increase of 18.5% as compared with last year. Paiqi trademark was recognized as a "Chinese well-known trademark" by State Administration for Industry and Commerce of the People's Republic of China, and became the third Chinese well-known trademark of the Group after Lijunsha and Shimen. Sales of our antibiotics preparation, such as Limaixian, cephalosporin series and Ethylsuccinate tablets remained stable.

3. **Good growth in sales of brand preparation and general medicines**

Through the continuous academic promotion in hospitals and marketing development, sales revenue of Dobesilate amounted to HK$81,971,000 in 2010, representing an increase of 28.0% as compared with last year. Sales revenue of Lixiding amounted to HK$35,510,000 in 2010, representing an increase of 43.4% as compared with last year. General medicines sustained a continuous growth, achieved annual sales amounted to HK$381,550,000 in 2010, representing an increase of 7.2% as compared with last year.

4. **Sales of OTC products leaping to a new platform**

Sales revenue of new OTC products was HK$14,620,000, a year-on-year growth of 34.5%. Sales of Kehao tablets for eliminating heats from lungs, relieving cough and dispelling phlegm increased by 66% as compared with last year through vigorous efforts of increasing sales in important regions and peak season promotion; sales of Weikoujia effervescent tablets increased by 45% as compared with last year through the seasonal and on-going promotions; sales of Lijungai increased 30% as compared with last year through further promotion and marketing. Haogan, a new strategic influenza drug, was launched into the market in the second half of 2010, with encouraging sales trend.

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

(2) New product development

1. The "Shaanxi Provincial Innovative Preparation Engineering Center" jointly established by Xi'an Lijun and The Fourth Military Medical University had completed its successful moving-in and laboratory platform construction last year. Five projects including the Type 1.1 Drug Candidates New Drug on Anti Dementia and the New Technology on Erythromycin Ethylsuccinate Crystallization were granted a supporting fund of RMB 5,850,000. The Type 1.5 new drug for Anti-influenza, "Compound Dextral Ibuprofen Sustained-release Double-layered Tablets", had obtained an authorized national invention patent. The project of Cefepime Lyophilized Powder and Injection was awarded the Second Prize of Xi'an Scientific and Technological Advancement. The Three Projects like the Compound Stomach Medications Double-layered Tablets (the scientific and technological plan project of Xi'an), Lingzhihong raw materials and preparation (the major scientific and technological breakthrough project of Shaanxi Province) and "13115 Innovative Preparation Engineering Center" had completed the concluding inspection and acceptance process. Radix Notoginseng Capsules of Radix Panacis quinquefolii had obtained the health food approval certificate. Three National Class I new medicines, which are under key research and development, were progressing steadily.

2. The Class II new drug Arbidol Hydrochloride Capsules developed by Shijiazhuang No. 4 Pharma was listed as a recommended anti-Influenza A (H1N1) medicine by Ministry of Health. The "Eleventh Five-Year" technology support key project subject of Safety Research Study on Medicines and Packaging Materials Compatibility of the State undertaken by the Group was successfully completed and reported. This subject would play a positive role in promoting the supervision and inspection technology of domestic infusion solution products, improving the safety evaluation standards for relevant medicines, and expanding our influence in the industry. The Group obtained production permit for its new products like the Compound Mannitol Injection, Xantinol Nicotinate and Sodium Chloride Injection, and Buflomedil Hydrochloride Sodium Chloride Injection, clinical permit for Valaciclovir Hydrochloride Tablets, specifications add-in permit for Ambroxol Hydrochloride Glucose Injection (7.5mg and 15mg) and 104 permits for the registration of other medicines and packaging materials. The Group applied for 2 invention patents for infusion solution related technology.

(3) Construction of new projects

The key projects in Hebei Province such as the modernized soft-packaging infusion solution project and its ancillary logistics warehouse were progressing smoothly. This project was designed in full compliance to European Union certification standards, and its major equipments will be imported from abroad. The project is focusing on producing single-chamber bag, multiple-chamber bag, single-outlet pipe and double-outlet pipe soft bag infusion solution products and expanding the supply capacity of soft bag market, for coping with the changes in demand arising from the adjustment to the infusion solution market, promoting the enterprise's scale competition level and further consolidating its leading position in domestic infusion solution production. The pharmaceutical ingredient projects of Hydroxyethyl Starch and Azithromycin, constructed to complement the big infusion solutions preparation had entered into the workshop exterior installation stage. The above construction projects were planned to be formally put into production during the year.

The project of the joint venture "Jilin LJDB Pharmaceutical Ltd.", set up between the Group and Tonghua Dongbao Pharmaceutical was still under approval process due to some difficulties in transferring the pharmaceutical production license approval from joint venture partner to the joint venture. The joint venture partner was working hard to complete the transfer process. At present, no fund was being invested by us.

3. DEVELOPMENT OUTLOOK

Looking forward to 2011, with the gradual in-depth of the national medical reform, it is probable that some new policies and measures would be launched, and they would further impact adversely on the whole pharmaceutical industry. The Group will face a more severe situation in business operation, especially the increase of reducing objective favourable factors: (1) price reduction policy of the Group's main leading products; (2) increase in raw material prices (especially for petroleum related raw materials) and increase in power and labor costs; and (3) imposition of urban construction tax and supplemental education tax. The above three factors caused a significant trimming down in operating profit of the Group, and brought a major challenge to its operation.

In response to the critical situation, the Group will adopt the following measures:

(1) Further enhance the market prominent position of infusion solution products

We will further advance the adjustment to the product and sales structure of infusion solution business and accelerate the transformation of growing methods. On the basis of improving the ability to quickly respond to market, we will implement the tailor-made differentiated marketing strategies, strengthen the product sales of PP plastic bottle and Non-PV soft bag, especially the therapeutical infusion solutions, reduce the production and sales of general conventional infusion solutions, and increase PP plastic bottle and Non-PVC soft bag infusion solutions and therapeutical categories like Ambroxol, Amino Acid, Mannitol, Hydroxyethyl Starch, Ozagrel, Gatifloxacine, Fluconazole. At the same time, with the advantages of using self-produced raw materials of Hydroxyethyl Starch, we will increase the sales of our infusion variety. We will strengthen the strategic partnership with major hospitals and enterprises, boost up end-user sales, consolidate the existing market and develop new markets.

We will earnestly plan and implement key technological renovation projects. We will carry out an in-depth analysis on the changing trend of new industry competition situation, couple with the implementation of new GMP version, implement the modern infusion solution preparations and its ancillary projects and the construction pace of pharmaceutical ingredients project. The above will push forward and affect the corporate future development to ensure such project will be completed and commence operation during the year.

(2) Increase antibiotics sales through prices reduction

Under the new situation of national prices reduction, we will focus on direction and assessment "three mandatary plans" like the additional sales, distribution and end-user promotion for our leading branded product, Lijunsha, continue to strengthen market control, and further improve market penetration rate. We will make emphasis on launching the new 30s Lijunsha tablet specifications. We will pay high attention to the sales volume expansion of Lijunsha granules and capsules and will strive to realize a steady growth for overall sales of Lijunsha for the year.

We will capture the opportunities that Paiqi series of products are being newly recognized as "Chinese well-known Trademark" and give prominence to the brand propaganda and quality shaping. Whilst striving for increasing the sales of lyophilized powder injection, we will strive for promoting the Paiqi oral intake series (dispersible tablets, capsules and dry suspension) and its sales volume increase. Sales of Limaixian and cephalosporin powder injection products will operate based on its scale of production and will strive to achieve a significant growth for these products in a careful and intensive cultivation manner.

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

(3) Nurture proactively the growing points of new products

Dobesilate is the premier brand of the PRC microcirculation medicines that we have devoted tremendous resources and carefully nurtured in recent years. While strengthening our efforts in the development of hospital market and academic promotion, and securing the sales of prescription Dobesilate in 2011, we will further intensify the development of the OTC Dobesilate market and strive to make this "double span" product exceeding the HK$100,000,000 sales mark, whereby becoming the third preparation product of the Company achieving an annual sales of over HK$100,000,000. With the 50mg infusion solutions as the main product, we will focus on the hospitals and departments small-scale promotion conference for Lixiding and strive to achieve a sustainable and steady growth of sales for the year.

For influenza drugs like Haogan, we will enhance the organization of team building, value the national agency layout, attach importance to drugstores marketing, as well as intensify our efforts in propaganda and promotion, and endeavour to achieve larger sales of Haogan for the year. The featured OTC products like Kehao, Weikoujia, Lijungai, Zijin, Lingzhihong and Shentai oral liquids will, in the context of very limited advertising and promotion expenses, focus on the effective promotion and marketing, nurturing the loyal consumer base, and endeavour to achieve continuing fast growth of sales of such OTC products.

(4) Remain the marketing of general medicine and foreign trading

We will further develop the marketing idea and restructuring change in the sales of general medicine, emphasizing on the bidding and supplement, paying attention to selecting the relative advantageous featured products to further expand sale volumes, and endeavour to realize sales of RMB346,000,000 for the year. For foreign sales of featured preparation, we will further develop overseas markets and endeavour to realize a significant breakthrough of its exports.

(5) Accelerate new products development

We will try our best to obtain the production permits for our 10 new products in the year, including Compound Metformin Hydrochloride and Glipizide Tablets, Cetirizine Hydrochloride Tablets, Cefixime Orally Disintegrating Tablets, Glycine Irrigation Solution, Levofloxacin Lactate and Sodium Chloride Injection and Lingzhihong Capsules. During the year, we will strive to achieve breakthroughs in major key products under accelerating research including the Type 1.1 new drug for curing Alzheimer's disease, Type 1.5 new drug for gastric mucosal protection functions, Type 1.5 new drug for anti-influenza, Arbidol Hydrochloride Dry Suspension and Levamlodipine Besylate Tablets. By further leveraging on the scientific and research platforms such as the Lijun new medicine research institute, post-doctoral workstation in scientific research, national technology center, injection engineering technological center and innovative preparation engineering technical research center, we will strengthen our co-operation with national level scientific research institutions, introduce pioneers in scientific technology and post-doctoral research fellows and establish expert database in science and technology to improve our capabilities in research and development, providing strong support for the corporate development.

3. DEVELOPMENT OUTLOOK *(continued)*

(6) Focus on expanding production and re-engineering of three major projects

To couple with the development plan under "the 12th Five Year Plan", in 2011, Xi'an Lijun will first commence the capacity expansion and re-engineering project of 15 billion tablets, and strive to complete the major construction by the end of the year. The capacity expansion and re-engineering projects for lyophilized powder injection and liquid injection will complete the proofing work in the first half year and submit to the Company for decision-making.

In general, our operation will be facing tremendous challenges, severe situations and unprecedented difficulties in 2011. However, we are confident about the development of the Company. With the grim objective situation, we will conquer all difficulties through the indomitable fightings and persistant efforts to consolidate and develop our advantages and strive for higher market share, and thus continue to create better returns to our investors.

Finally, on behalf of the Board, I hereby express our sincere gratitude to our investors and all the staff for their dedicated support.

Wu Qin
Chairman

Hong Kong, 25 March 2011

REVENUE

For the year ended 31 December 2010, the revenue of the Group amounted to approximately HK$1,971,657,000, representing an increase of 13.3% as compared with HK$1,739,628,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2010 is set out as follows:

	2010		2009		**Change**
	HK$'000	***%***	*HK$'000*	*%*	*%*
Intravenous Infusion Solution	**788,904**	**40.0**	659,715	37.9	19.6
(Including: PP Plastic Bottle Infusion Solution	**294,500**	**14.9**	268,063	15.4	9.9
Non-PVC Soft Bag Infusion Solution)	**246,021**	**12.5**	154,425	8.9	59.3
Antibiotics	**744,826**	**37.8**	717,195	41.2	3.9
(Including: Lijunsha	**471,362**	**23.9**	438,155	25.2	7.6
Paiqi)	**133,014**	**6.7**	112,201	6.4	18.5
Non-antibiotics finished medicines	**335,552**	**17.0**	261,704	15.0	28.2
(Including: Dobesilate	**81,971**	**4.2**	64,017	3.7	28.0
Lixiding	**35,510**	**1.8**	24,762	1.4	43.4
Sales of bulk pharmaceuticals	**100,654**	**5.1**	97,833	5.6	2.9
Others	**1,721**	**0.1**	3,181	0.3	(45.9)
Total	**1,971,657**	**100**	1,739,628	100	13.3

INTRAVENOUS INFUSION SOLUTION

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

Revenue of Shijiazhuang No. 4 Pharma for the year ended 31 December 2010 was HK$788,904,000 (2009: HK$659,715,000), representing a growth of 19.6% on a year-to-year basis. Among which, sales of intravenous infusion solution products contributed HK$714,206,000 (2009: HK$600,716,000), representing a growth of 18.9% on a year-to-year basis. Among which, sales of Non-PVC Soft Bag infusion solution was HK$246,021,000, representing 34.4% of the total sales of intravenous infusion solution and an increase of 59.3% as compared with last year; sales of PP Plastic Bottle infusion solution was HK$294,500,000, representing 41.2% of the total sales of intravenous infusion solution and an increase of 9.9% as compared with last year; sales of Glasses Bottle infusion solution was HK$173,685,000, representing 24.4% of the total sales of intravenous infusion solution and a decrease of 2.6% as compared with last year.

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

ANTIBIOTICS

In 2010, sales of Lijunsha increased by 7.6% to HK$471,362,000 (2009: HK$438,155,000), sales of Paiqi increased by 18.5% to HK$133,014,000 (2009: HK$112,201,000) and sales of others antibiotics finished products decreased by 15.8% to HK$140,450,000 (2009: HK$166,839,000). Overall sales of antibiotics finished products increased by 3.9% to HK$744,826,000 (2009: HK$717,195,000). Sales of antibiotics for the year increased when compared with last year and achieved the expected target.

The reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 41.2% in 2009 to 37.8% in 2010 and sales proportion of Lijunsha accounted for only 23.9% of the total Group's sales in 2010, comparing to 25.2% in 2009.

NON-ANTIBIOTICS FINISHED PRODUCTS

Thanks to the expanded sales network in small-to-medium sized cities and rural areas and the contribution of similar products sales from Shijiazhuang No. 4 Pharma, sales of the Group's non-antibiotics products increased by 28.2% to HK$335,552,000 (2009: HK$261,704,000). Among which, sales of Dobesilate increased by 28.0% to HK$81,971,000 (2009: HK$64,017,000) and sales of Lixiding increased by 43.4% to HK$35,510,000 (2009: 24,762,000).

SALES OF BULK PHARMACEUTICALS

Export sales of bulk pharmaceuticals amounted to HK$100,654,000 in 2010 (2009: HK$97,833,000), representing an increase of 2.9%.

COST OF GOODS SOLD

The Group's cost of goods sold increased by 11.3% from HK$880,264,000 for the year ended 31 December 2009 to HK$980,031,000 for the year ended 31 December 2010. The cost of direct materials, direct labour and other costs represented approximately 73.0%, 10.5% and 16.5% of the total cost of goods sold respectively for the year ended 31 December 2010 while their comparative percentage for 2009 were 71.1%, 6.1% and 22.8% respectively.

GROSS PROFIT MARGIN

Gross profit of the Group in 2010 amounted to HK$991,626,000 (2009: HK$859,364,000), representing a gross profit margin of 50.3%, which was increased by 0.9 percentage point comparing to that of last year (49.4%). This is mainly due to market integration and continuous improvement of business environment which enabled the Group to achieve sales growth with relatively stable sales prices as well as better sales product mix and effective cost control resulting from enhanced production management.

SELLING AND MARKETING COSTS

For the year ended 31 December 2010, selling and marketing costs amounted to approximately HK$461,270,000 (2009: HK$424,433,000), which mainly consisted of advertising expenses of approximately HK$67,493,000 (2009: HK$62,906,000), sales commission of approximately HK$183,512,000 (2009: HK$200,512,000), salaries expenses of sales and marketing staff of approximately HK$74,898,000 (2009: HK$53,686,000) and transportation cost of approximately HK$69,985,000 (2009: HK$55,184,000).

The increase of 8.7% in selling and marketing costs in 2010 as compared with that of 2009 was mainly attributable to the Group's increase in sales during the year.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to approximately HK$215,429,000 (2009: HK$175,555,000) for the year ended 31 December 2010 which mainly comprised salaries expenses for the administrative staff of approximately HK$81,989,000 (2009: HK$70,193,000), depreciation and amortisation of approximately HK$47,477,000 (2009: HK$45,415,000) and office and rental expenses of approximately HK$9,409,000 (2009: HK$9,152,000).

The increase of 22.7% in general and administrative expenses in 2010 as compared with that of 2009 was mainly attributable to expansion of the Group's operations and increase in salaries expenses for the administrative staff. Also, certain provisions on inventories and receivables made in 2008 had been reversed in 2009, such as reversal of inventories of HK$7,311,000 in 2009 (2010: write off of HK$708,000) and reversal of impairment of receivables of HK$5,479,000 in 2009 (2010: HK$1,087,000).

OPERATING PROFIT

The Group's operating profit in 2010 increased by 15.7%, amounted to HK$324,993,000 (2009: HK$280,780,000) with its operating profit margin (defined as operating profit divided by total sales) increased from 16.1% to 16.5%.

FINANCE COSTS

The finance costs for the year has decreased to HK$23,852,000 in 2010 (2009: HK$41,114,000). During the year, interest expense on bank borrowings amounted to HK$23,476,000 (2009: HK$26,096,000), finance costs on discount of bills receivables amounted to HK$1,596,000 (2009: HK$1,115,000) and there was no finance costs for convertible bonds (2009: HK$13,703,000).

INCOME TAX EXPENSE

Both Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") and Shijiazhuang No. 4 Pharma are qualified as new high technology enterprises and entitled to a 15% preferential Mainland China Enterprise Income Tax ("EIT") rate for the years from 2010 to 2012. For the year ended 31 December 2010, the income tax expense amounted to HK$44,992,000 (2009: EIT rate applicable was 12.5% and amounted to HK$24,803,000).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS FOR THE YEAR

Profit attributable to equity holders of the Company for the year increased by 20.6% to HK$260,592,000 (2009: HK$216,095,000) while net profit margin (profit attributable to equity holders of the Company for the year divided by total sales) increased to 13.2% from 12.4% in 2009.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2010, the cash and cash equivalents aggregated to HK$598,911,000 (2009: HK$184,964,000), comprising HK$316,387,000 (2009: HK$7,413,000) of cash and cash equivalents denominated in Hong Kong dollars, HK$280,987,000 (2009: HK$176,551,000) in RMB and HK$1,537,000 (2009: HK$1,000,000) in other currencies.

As at 31 December 2010, the Group has pledged bank deposits amounting to HK$30,531,000 (2009: HK$8,662,000) as guarantee of the bank borrowings, payables for property, plant and equipment and bills payable.

The carrying amounts of the borrowings amounting to HK$433,146,000 (2009: HK$513,968,000) as at 31 December 2010, comprising HK$80,590,000 (2009: HK$105,100,000) of borrowings denominated in Hong Kong dollars and HK$352,556,000 (2009: HK$408,868,000) in RMB.

Gearing ratio (defined as bank borrowings less pledged bank deposits and cash and cash equivalents divided by total equity less minority interests) decreased from 19.7% as at 31 December 2009 to -8.3% as at 31 December 2010.

Current ratio (defined as current assets divided by current liabilities) increased from 1.20 as at 31 December 2009 to 1.76 as at 31 December 2010.

FOREIGN EXCHANGE RISK

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

PLEDGE OF ASSETS

As at 31 December 2010, the net book amount of the Group's land use right of HK$65,449,000 (2009: HK$64,854,000), the net book amount of the Group's buildings, plant and machineries of HK$246,749,000 (2009: HK$356,497,000) and bank deposits of HK$30,531,000 (2009: HK$8,662,000) were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payable.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities.

EXCHANGE RATE

As at 2010 and 2009, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2009	0.88189
31 December 2009	0.88048
31 December 2010	0.85093

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Wu Qin（吳秦）, aged 58, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Wu has been the chairman of Rejoy Group Limited Liability Company ("Rejoy Group") since October 1998. He has also been the chairman of Xi'an Lijun since November 1999. He is also a director of Prime United Industries Limited ("Prime United"), a controlling shareholder of the Company. Mr. Wu was the general manager of Xi'an Lijun. Mr. Wu has over 30 years of experience in the pharmaceutical industry. He is particularly experienced in the business planning, marketing and enterprise management for pharmaceutical brands. In addition to setting up a number of unique management models, he has also achieved great success in establishing the "Lijunsha" brand, which is one of the prominent "Well-known Trademark in China" in the pharmaceutical industry in the PRC. Mr. Wu graduated from the Open University of Hong Kong with a degree of Master in Business Administration in 2002. He was a deputy to the 10th Standing Committee of the National People's Congress, and was awarded the National Labour Model Award（全國勞動模範）, National May First Labour Medal（全國五一勞動獎章）, International Chinese Commercial Leaders Award（世界華商領袖功勛獎）, Outstanding Chinese Entrepreneurs Award（中國傑出企業領袖）and 100 Most Innovative Chinese Characters Award（中國改革100新銳人物）. He was also an executive director of Pharmaceutical Administration Association/China Pharmaceutical Association. He also enjoys special subsidy for the year 2002 granted by the State Council of the PRC. He is currently a vice president of Shaanxi Industrial and Economic Federation and Deputy Chairman of the Shaanxi Association of Commerce of the China International Association of Commerce. He is also a senior economist accredited by The Ministry of Personnel of China, the Deputy Chairman of Law and Social Order Committee of the Standing Committee of Shaanxi Province People's Congress and member of Strategies & Advisory Committee of Shaanxi Province.

Mr. Qu Jiguang（曲繼廣）, aged 56, an executive Director, the vice-chairman and the chief executive officer of the Company. Mr. Qu is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has nearly 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress（河北省人大代表）, Executive Committee Member of All-China Federation of Industry and Commerce（全國工商聯執委）, Vice-Chairman of China Pharmaceutical Industry Association（中國化學製藥協會副會長）, Vice-Chairman of Hebei Provincial Federation of Industry and Commerce（河北省工商聯副主席）, Vice-Chairman of Hebei Provincial Association of Enterprise（河北省企業聯合會副會長）, Vice-Chairman of Hebei Pharmaceutical Industry Association（河北省醫藥行業協會副會長）.

Mr. Xie Yunfeng（謝雲峰）, aged 56, an executive Director and is responsible for finance and supplies of Xi'an Lijun. Mr. Xie has been a director and the deputy general manager of Xi'an Lijun since November 1999. He was a director of Rejoy Group from August 1999 to May 2004. Mr. Xie joined the Group since its establishment in November 1999 and has nearly 30 years of experience in pharmaceutical production. He is also a director of Prime United. Mr. Xie graduated from Party School of the CPC Central Committee majoring in law in 2001. Mr. Xie was awarded the Labour Model of Shaanxi Province and the second session of the honorary title of Outstanding Young Entrepreneurs of Xi'an City.

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Huang Chao（黃朝）, aged 55, an executive Director and is responsible for daily administration and management of Xi'an Lijun. Mr. Huang has been a director of Xi'an Lijun since November 1999 and is currently the general manager of Xi'an Lijun. He had been the deputy chairman of Xi'an Lijun until December 2004 and was the deputy chairman of Rejoy Group from August 1999 to September 2005. Mr. Huang joined the Group since its establishment in November 1999 and has over 30 years of experience in pharmaceutical production. He is a director of Prime United. Mr. Huang graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002, he is also a senior economist accredited by The Ministry of Personnel of China.

Ms. Sun Xinglai（孫幸來）, aged 54, an executive Director and is responsible for public relation of the Group. Ms. Sun has been a director of Xi'an Lijun since May 2004. She was the deputy general manager of Xi'an Lijun during November 1999 to May 2004. Ms. Sun joined the Group since its establishment in 1999. Ms. Sun was a director of Rejoy Group from May 2004 to September 2005 and the chief executive officer of Xi'an Rejoy Technology Investment Co. Ltd. ("Rejoy Technology") from May 2004 to April 2005, and the chairman of labour unions of Rejoy Group and Xi'an Lijun. Ms. Sun has been the Chairman of Rejoy Technology since November 2008. Ms. Sun graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002.

Mr. Wang Xianjun（王憲軍）, aged 48, an executive director. Mr. Wang has over 20 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang was also an independent non-executive director of Greater China Holding Limited from July 2002 to August 2005, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

Mr. Duan Wei（段偉）, aged 53, an executive Director and is responsible for sales and human resources functions of Shijiazhuang No. 4 Pharmaceutical Co., Ltd.. He joined No. 1 Pharma as a supervisor in March 1984 and was later promoted as the supervisor of Shijiazhuang Pharmaceutical Group. Mr. Duan has been an executive director and the vice general manager of Shijiazhuang No. 4 Pharma since March 1999 and he has also been an executive director of New Orient, CPCL and CMP. Mr. Duan graduated from Hebei Central Radio and TV University（河北廣播電視大學）and has ample experiences in sales management.

Ms. Zhang Guifu（張桂馥）, aged 51, an executive Director and is responsible for the finance functions of Shijiazhang No. 4 Pharmaceutical Co., Ltd.. Ms. Zhang joined Hebei Yuanzheng Pharmaceutical Company Limited（河北遠征藥業有限公司）as the finance manager in 1991. She has been the finance manager of Shijiazhuang No. 4 Pharma since August 2001 and an executive director of Shijiazhuang No. 4 Pharma since December 2001. She has also been an executive director of New Orient, CPCL and CMP. Ms. Zhang graduated from Hebei Economic Management College（河北經濟管理幹部學院）and has over 27 years of experience in financial control.

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Bao Leyuan（包樂源）, aged 53, an executive Director and is currently a director of Xi'an Rejoy Group Co., Ltd., Xi'an Lijun Fangyuan Pharmaceutical Co., Ltd. and Shaanxi Lijun Modern Traditional Chinese Medicine Co., Ltd.. Mr. Bao joined Xi'an Lijun Pharmaceutical Co., Ltd., a subsidiary of the Company, as a vice chief accountant since 1999, responsible for the asset management functions of the Group. Mr. Bao has been the Chairman of the Supervisory Board of Rejoy Technology since November 2008. Mr. Bao graduated from Xi'an Radio and Television University in 1986. He is also an accountant in China and has ample experience in financial management.

Ms. Gao Shuping（高淑平）, aged 50, an executive Director and is currently a director of New Orient Investments Limited, a direct wholly-owned subsidiary of the Company and a director and vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd., an indirect wholly-owned subsidiary of the Company. Ms. Gao is responsible for implementation of infrastructure projects and land and property management of the Company. Ms. Gao joined Shijiazhuang No. 4 Pharmaceutical Factory in August 1982 and has been the chief officer of technology department, assistant chief engineer and vice general manager. Ms. Gao has been the manager of quality department of Shijiazhuang Pharmaceutical Group Co., Ltd. from January 1998 to January 2002. Ms. Gao took up the post of vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. from January 2002 to December 2004. Afterwards, she served as a director and vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. from December 2004. Ms. Gao has been engaging in the quality management of pharmaceutical production and the technological transformation of pharmaceutical facilities for a long time, and has accumulated profound theoretical and practical experience. Ms. Gao graduated from Hebei Institute of Chemical Technology with a bachelor's degree majored in Chemical Technology. She is a senior engineer accredited by The Ministry of Personnel of the People's Republic of China, and is a practicing pharmacist.

Non-executive director

Mr. Liu Zhiyong（劉志勇）, aged 40, a non-executive Director. He joined China National Technical Import and Export Corporation as a finance personnel in 1992 and became the deputy managing director and an executive director of CNTIC Group International Finance Limited in May 1998. Mr. Liu took up the post of the managing director of Genertec Hong Kong International Capital Limited in July 2003. Mr. Liu is a director of Victory Rainbow Investment Limited, a substantial shareholder of the Company. Mr. Liu graduated from Renmin University of China with a bachelor's degree in Accounting in 1992, obtained a degree of Master in Business Administration of The Hong Kong University of Science and Technology in 2006. He is a member of CICPA.

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wang Yibing（王亦兵）, aged 48, an independent non-executive Director. He graduated from Shenyang Pharmaceutical University, majored in pharmacy（瀋陽藥科大學藥學）. He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce（河北省醫藥行業協會）. Mr. Wang joined Heibei Provincial Pharmaceutical Research Centre（河北省藥物研究所）in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine（河北省醫藥管理局綜合經濟處）as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration（河北省食品藥品監督管理局藥品註冊處，藥品安全監管處）. Mr. Wang possesses about 25 years experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun（梁創順）, aged 45, an independent non-executive Director. He is also an independent non-executive director of China National Materials Company Limited (Stock code:1893), China Metal Recycling (Holdings) Limited (Stock code:773) and China Communications Construction Company Limited (Stock code: 1800), companies listed on the Stock Exchange. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

Mr. Chow Kwok Wai（周國偉）, aged 44, was appointed as an independent non-executive Director of the Company on 16 October 2005. Mr. Chow has worked in Pricewaterhouse, which is now known as PricewaterhouseCoopers and accumulated valuable audit experience there. Mr. Chow received his Bachelor of Social Sciences Degree from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member of the Taxation Institute of Hong Kong ("TIHK"). Mr. Chow is also a registered Certified Tax Adviser（註冊稅務師）of the TIHK effective from 7 September 2010. He has over 20 years' of experience in accounting, financial management and corporate finance. Mr. Chow is currently an executive director, a Deputy General Manager and the Qualified Accountant of Silver Grant International Industries Limited (Stock code: 171), a non-executive director of Cinda International Holdings Limited (Stock code: 111) and an independent non-executive director of Youyuan International Holdings Limited (Stock code: 2268), whose shares are listed on the Main Board of the Stock Exchange.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Sze Wing Kin, Pierre（施永健）, aged 34, is the qualified accountant, company secretary and chief financial officer of the Company. Mr. Sze graduated from The Hong Kong University of Science and Technology with Bachelor of Business Administration (Hons) in Professional Accounting in 1998 and has ten years of working experience in auditing, accounting and taxation in Hong Kong and the mainland of The People's Republic of China. Prior to joining the Company, Mr. Sze has worked for several international audit firms. Mr. Sze is a Fellow Member of the Association of Chartered Certified Accountants and is an Associate Member of the Hong Kong Institute of Certified Public Accountants.

The Board present their report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2010 is set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 46 to 47.

DIVIDENDS

An interim dividend of HK$0.02 per share was declared on 23 August 2010 and paid on 24 September 2010.

The Directors recommend the payment of a final dividend of HK$0.02 per share which, together with the interim dividend of HK$0.02 per share, will result in total dividends of HK$0.04 (2009: HK$0.04) per share for the year ended 31 December 2010. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 27 May 2011 and payable on 9 June 2011 if it is approved.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 19 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

Reserves of the Company as at 31 December 2010 available for distribution amounted to HK$60,986,000 (2009: HK$47,497,000). The Company's share premium account in the amount of HK$1,371,873,000 (2009: HK$842,176,000) is also available for distribution to shareholders, subject to the condition that no distribution or dividend may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the allotment and issuance of an aggregate of (i) 235,000,000 shares of the Company to Value Partners Limited (205,000,000 shares) and Atlantis Investment Management Limited (30,000,000 shares) which details were set out in the Company's announcements dated 14 April 2010 and 27 April 2010 and (ii) 100,000,000 shares of the Company due to exercise of share options granted on 7 August 2008 as disclosed under the section headed "Share Option Scheme" and purchase of 6,040,000 shares in December 2010 which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2010.

During the year, the Company acquired an aggregate of 6,040,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration (excluding transaction costs) of HK$13,738,350 with a view to benefit shareholders as a whole in enhancing the net assets value and earnings per share of the Company. All of the purchased shares were subsequently cancelled on 14 January 2011.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share	Lower price paid per share	Aggregate consideration
		HK$	*HK$*	*HK$*
28 December 2010	1,400,000	2.32	2.27	3,200,750
29 December 2010	1,000,000	2.33	2.29	2,301,850
30 December 2010	1,480,000	2.31	2.22	3,356,450
31 December 2010	2,160,000	2.28	2.23	4,879,300
	6,040,000			13,738,350

SHARE OPTION SCHEME

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

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

As at 7 August 2008, the Company granted 100,000,000 share options to directors and senior management of the Group, representing about 4.93% of the issued share capital as at the date immediately before the options were granted. The exercise price was HK$0.7. As at 4 October 2010, all of the share options granted were exercised. Details are set out in the Company's announcement dated 4 October 2010 and note 18 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors

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

Non-executive Director

Mr. Liu Zhiyong

Independent Non-executive Directors

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

Pursuant to Article 87 of the Company's articles of association, at every annual general meeting one-third of the directors for the time being (or if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and every retiring director shall be eligible for re-election. Accordingly, Mr. Wu Qin, Mr. Xie Yunfeng, Mr. Huang Chao, Mr. Leung Chong Shun and Mr. Chow Kwok Wai will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions", no contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 14 to 17.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

EMPLOYEES AND REMUNERATION POLICY

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

As at 31 December 2010, the Group had approximately 3,600 employees, most of whom were members of the Group's production team based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs and the emolument policy of employees is based on industry practice.

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

The total remuneration cost incurred by the Group for year ended 31 December 2010 was HK$258,991,000 (2009: HK216,557,000). Details of the remuneration of the Directors for the year ended 31 December 2010 are set out in note 31 to the financial statements.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Effective from 7 September 2010, Mr. Chow Kwok Wai, independent non-executive director of the Company, is a registered Certified Tax Advisor（註冊稅務師）of the TIHK.

On 24 January 2011, Mr. Leung Chong Shun, independent non-executive director of the Company, was appointed as independent non-executive director of China Communications Construction Company Limited (Stock code: 1800) whose shares are listed on the Stock Exchange.

RETIREMENT BENEFIT PLANS

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 8%, respectively, of the employees' basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group also has an early retirement plan. Expenses incurred by the Group in connection with the retirement benefit plans were approximately HK$18,120,000 for the year ended 31 December 2010 (2009: HK$16,472,000).

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2010, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Beneficial owner	15,420,000	0.63%
Mr. Qu Jiguang	Interest in a controlled corporation *(Note 1)*	571,500,000	23.28%

Note:

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

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 31 December 2010, the Company had been notified of the following interests and short positions, being 5% or more in the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of shares	% of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	641,655,000	26.14%
CPCL *(Note 2)*	Beneficial owner	571,500,000	23.28%
Mr. Qu Jiguang	Interest of controlled corporation *(Note 2)*	571,500,000	23.28%
Value Partners Limited *(Note 3)*	Investment manager	188,015,000	7.66%
Value Partners Group Limited *(Note 3)*	Interest of controlled corporation	188,015,000	7.66%
Cheah Capital Management Limited *(Note 3)*	Interest of controlled corporation	188,015,000	7.66%
Cheah Company Limited *(Note 3)*	Interest of controlled corporation	188,015,000	7.66%
Hang Seng Bank Trustee International Limited *(Note 3)*	Trustee	188,015,000	7.66%
Mr. Cheah Cheng Hye *(Note 3)*	Interest of controlled corporation and founder of a discretionary trust	188,015,000	7.66%
Ms. To Hau Yin *(Note 3)*	Interest of spouse	188,015,000	7.66%

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

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

Notes:

(1) Prime United Industries Limited is held as to about 8.86% by Mr. Wu Qin, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director, as to about 84.73% by Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao who jointly hold such shares on trust for 3,100 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao, the executive Directors, are also directors of Prime United Industries Limited. Xi'an Lijun is a company established in the PRC with limited liability and wholly-owned by the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by State-owned Assets Supervision and Administration Commission of the People's Government of Xian.

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

(3) These shares are held by Hang Seng Bank Trustee International Limited in its capacity as the trustee of a family trust through Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited and Cheah Company Limited. Mr. Cheah Cheng Hye is the founder of the family trust and Ms. To Hau Yin as the spouse of Mr. Cheah Cheng Hye is deemed to be interested in these shares.

MANAGEMENT CONTRACTS

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

MAJOR SUPPLIERS AND CUSTOMERS

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

CONNECTED TRANSACTIONS

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

Continuing connected transactions

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

Pursuant to the Master Sale Agreement dated 18 December 2009, the Group agreed to sell and the Rejoy Technology Group agreed to purchase and distribute products of the Group. The Rejoy Technology Group purchases products from the Group and distributes such products to other distributors and end customers. The directors confirmed that the selling prices of the Group's products sold to the Rejoy Technology Group were determined in accordance with the market prices and terms and that the Group charged the Rejoy Technology Group for the products at prices no less favourable than those charged to independent third parties and on terms no less favorable than those the Group can obtain from independent third parties.

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

For the year ended 31 December 2010, there was no sales of Group products to the Rejoy Technology Group (2009: RMB6,206,000), which did not exceed the annual cap of RMB21,500,000 (2009: RMB21,500,000) prescribed for the year ended 31 December 2010 as disclosed in the announcement dated 21 December 2009.

(2) Purchasing of Raw Materials from Rejoy Technology Group

Pursuant to the Master Purchase Agreement dated 18 December 2009, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group. The prices and terms of the Master Purchase Agreement are as per market and shall be no less favourable than market prices and terms.

The directors confirmed that the Group pays Rejoy Technology Group for the raw materials and packaging materials at prices no less favourable than those paid to independent third parties and on terms no less favourable than those the Group can obtain from other comparable independent third parties. For the year ended 31 December 2010, there was no purchase of raw materials and packaging materials from the Rejoy Technology Group (2009: RMB2,292,000), which did not exceed the estimated annual cap of RMB5,000,000 (2009: RMB5,000,000) prescribed for the year ended 31 December 2010 as disclosed in the announcement dated 21 December 2009.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions *(Continued)*

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

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions to the Board of Directors. A copy of the auditors' letter has been provided by the Company to The Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date prior to the issue of this annual report, being 25 March 2011, and at all times during the year ended 31 December 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2010.

AUDITORS

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

ANNUAL GENERAL MEETING

The 2011 Annual General Meeting of the Company will be held at 10:00 a.m. on 27 May 2011 at Office 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2011 (Tuesday) to 27 May 2011 (Friday) (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 23 May 2011 (Monday).

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 25 March 2011

REPORT ON CORPORATE GOVERNANCE PRACTICES

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

The following summarises the Company's corporate governance practices.

Key Corporate Governance Principles and the Company's Practices

A.1 Board of Directors

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

Four regular board meetings were held for the year ended 31 December 2010 and the attendance was as follows:

	Meetings attended/held	Attendance
Wu Qin	4/4	100%
Qu Jiguang	4/4	100%
Xie Yunfeng	4/4	100%
Huang Chao	4/4	100%
Sun Xinglai	4/4	100%
Wang Xianjun	4/4	100%
Duan Wei	4/4	100%
Zhang Guifu	4/4	100%
Bao Leyuan	4/4	100%
Gao Shuping	4/4	100%
Liu Zhiyong	2/4	50%
Wang Yibing	4/4	100%
Leung Chong Shun	3/4	75%
Chow Kwok Wai	4/4	100%

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

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

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

A.1 Board of Directors *(Continued)*

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

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

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

A.2 Chairman and chief executive officer

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

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

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

A.3 Board composition

The Board comprises ten executive Directors, namely Mr. Wu Qin, Mr. Qu Jiguang, Mr. Xie Yunfeng, Mr. Huang Chao, Ms. Sun Xinglai, Mr. Wang Xianjun, Mr. Duan Wei, Ms. Zhang Guifu, Mr. Bao Leyuan and Ms. Gao Shuping, one non-executive Director, being Mr. Liu Zhiyong, and three independent non-executive Directors, being Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown on pages 14 to 17 under the section headed "Biographical Details of Directors and Senior Management".

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

A.3 Board composition *(continued)*

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

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

A.4 Appointments, re-election and removal

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

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

Pursuant to Articles 86 and 87 of the Articles of Association, Mr. Wu Qin (an executive Director), Mr. Xie Yunfeng (an executive Director), Mr. Huang Chao (an executive Director), Mr. Leung Chong Shun (an independent non-executive Director) and Mr. Chow Kwok Wai (an independent non-executive Director) will retire from office by rotation in the forthcoming annual general meeting and being eligible, offer themselves for re-election at the AGM.

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

The Company had not established a Nomination Committee and retained the functions to the Board. The Directors from time to time identify individual suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether he can add value to the management through his contributions in the relevant strategic business areas and if the appointment results in a strong and diverse Board.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

A.5 Responsibilities of directors

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

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

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

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

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

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

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

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The Directors have confirmed that there were not any noncompliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2010.

A.6 Supply of and access to information

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

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

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

B.1 Remuneration of Directors and senior management

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

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

Two meetings had been held for the Remuneration Committee during the year ended 31 December 2010 and the attendance was as follows:

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

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

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

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

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

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

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

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

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

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

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

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

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

The following is a summary of the work of the Remuneration Committee during 2010 regarding the remuneration of Directors:

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

(ii) review of the remuneration of Directors;

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

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

Remuneration packages of executive Directors comprise fixed and variable components:

(1) Fixed component – base salary; and

(2) Variable component – annual performance bonus.

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

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

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

Details of the remuneration of Directors for the year ended 31 December 2010 are set out in the page 111 of the Annual Report.

C.1 Accountability and audit

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

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

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2010, the Directors have:

1. selected suitable accounting policies and applied them consistently;

2. approved adoption of all HKFRSs;

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

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

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

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.1 Accountability and audit *(Continued)*

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

C.2 Internal controls

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

C.3 Audit Committee

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

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

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

Two meetings had been convened by the Audit Committee during the year ended 31 December 2010 and the attendance was as follows:

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

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.3 Audit Committee *(Continued)*

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

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

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

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

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

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

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

  (iii) significant adjustments resulting from audit;

  (iv) the going concern assumptions and any qualifications;

  (v) compliance with accounting standards; and

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.3 Audit Committee *(Continued)*

(e) In regard to (d) above:

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

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

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

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

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

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

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

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

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

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

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

C.3 Audit Committee *(Continued)*

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

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

PricewaterhouseCoopers had been appointed to be the auditor of the Group. During 2010, total fees of about HK$3,000,000 paid/payable to PricewaterhouseCoopers were wholly related to audit services.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditor of the Group in 2011.

D.1 Delegation by the board

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

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

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

D.2 Board committees

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

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

REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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

E.1 Effective communication

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

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

E.2 Voting by poll

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

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

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

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

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

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

F. Directors' and Officers' Liability Insurance

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

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

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

We have audited the consolidated financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 119, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

AUDITOR'S RESPONSIBILITY *(continued)*

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2011

CONSOLIDATED BALANCE SHEET

As at 31 December 2010
(All amounts in HK$ unless otherwise stated)

	Note	**As at 31 December 2010 HK$'000**	As at 31 December 2009 HK$'000 (restated)	As at 1 January 2009 HK$'000 (restated)
ASSETS				
Non-current assets				
Land use rights	*6*	**215,565**	209,247	214,036
Property, plant and equipment	*7*	**994,067**	823,174	792,855
Intangible assets	*8*	**551,977**	550,225	566,440
Deferred income tax assets	*10*	**21,200**	17,037	15,626
Available-for-sale financial assets	*11*	**152**	147	146
		1,782,961	1,599,830	1,589,103
Current assets				
Inventories	*12*	**298,607**	229,377	225,783
Trade and bills receivables	*13*	**484,968**	408,394	414,103
Financial assets at fair value through profit or loss	*14*	**–**	87	2,608
Prepayments, deposits and other receivables	*15*	**176,733**	68,945	44,165
Pledged bank deposits	*16*	**30,531**	8,662	16,232
Cash and cash equivalents	*16*	**598,911**	184,964	219,453
		1,589,750	900,429	922,344
Total assets		**3,372,711**	2,500,259	2,511,447
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	*17*	**55,905**	48,894	46,959
Reserves	*19*			
– Proposed final dividend	*33*	**48,977**	42,398	20,270
– Others		**2,250,237**	1,533,484	1,301,615
		2,355,119	1,624,776	1,368,844
Non-controlling interests		**1,178**	1,044	945
Total equity		**2,356,297**	1,625,820	1,369,789

CONSOLIDATED BALANCE SHEET

As at 31 December 2010
(All amounts in HK$ unless otherwise stated)

	Note	As at 31 December 2010 HK$'000	As at 31 December 2009 HK$'000 (restated)	As at 1 January 2009 HK$'000 (restated)
LIABILITIES				
Non-current liabilities				
Borrowings	20	**66,594**	53,172	22,678
Convertible bonds		**–**	–	132,720
Deferred income tax liabilities	10	**26,250**	28,474	37,019
Deferred revenue	21	**4,818**	4,657	4,649
Long-term payables	22	**15,058**	15,189	15,661
		112,720	101,492	212,727
Current liabilities				
Trade and bills payables	23	**206,322**	143,942	143,046
Advanced receipts from customers		**23,276**	16,067	15,978
Accruals and other payables	24	**289,832**	138,894	195,876
Income tax payable		**17,712**	13,248	6,317
Borrowings	20	**366,552**	460,796	567,714
		903,694	772,947	928,931
Total liabilities		**1,016,414**	874,439	1,141,658
Total equity and liabilities		**3,372,711**	2,500,259	2,511,447
Net current assets/(liabilities)		**686,056**	127,482	(6,587)
Total assets less current liabilities		**2,469,017**	1,727,312	1,582,516

WU QIN
Director

QU JIGUANG
Director

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

BALANCE SHEET OF THE COMPANY

As at 31 December 2010
(All amounts in HK$ unless otherwise stated)

	Note	As at 31 December 2010 HK$'000	As at 31 December 2009 HK$'000 (restated)	As at 1 January 2009 HK$'000 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	*7*	**1,650**	2,319	3,060
Investments in subsidiaries and advance to a subsidiary	*9*	**1,206,959**	1,196,095	1,220,269
		1,208,609	1,198,414	1,223,329
Current assets				
Dividends receivable		**169,434**	23,566	39,427
Prepayments, deposits and other receivables	*15*	**1,436**	1,056	1,527
Amounts due from subsidiaries	*9*	**5,035**	–	18,046
Pledged bank deposits	*16*	**–**	8,548	8,542
Cash and cash equivalents	*16*	**316,688**	7,714	40,832
		492,593	40,884	108,374
Total assets		**1,701,202**	1,239,298	1,331,703
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	*17*	**55,905**	48,894	46,959
Reserves	*19*			
– Proposed final dividend	*33*	**48,977**	42,398	20,270
– Others		**1,557,585**	1,035,261	965,016
Total equity		**1,662,467**	1,126,553	1,032,245
LIABILITIES				
Non-current liabilities				
Convertible bonds		**–**	–	132,720
Deferred income tax liabilities		**–**	–	950
		–	–	133,670
Current liabilities				
Accruals and other payables	*24*	**1,235**	2,001	6,288
Borrowings	*20*	**37,500**	86,000	159,500
Amounts due to subsidiaries		**–**	24,744	–
		38,735	112,745	165,788
Total liabilities		**38,735**	112,745	299,458
Total equity and liabilities		**1,701,202**	1,239,298	1,331,703
Net current assets/(liabilities)		**453,858**	(71,861)	(57,414)
Total assets less current liabilities		**1,662,467**	1,126,553	1,165,915

WU QIN — *Director*

QU JIGUANG — *Director*

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(All amounts in HK$ unless otherwise stated)

	Note	**2010** **HK$'000**	2009 HK$'000
Revenue	25	**1,971,657**	1,739,628
Cost of sales	26	**(980,031)**	(880,264)
Gross profit		**991,626**	859,364
Selling and marketing costs	26	**(461,270)**	(424,433)
General and administrative expenses	26	**(215,429)**	(175,555)
Other gains – net	25	**10,066**	21,404
Operating profit		**324,993**	280,780
Finance income	27	**4,540**	1,331
Finance costs	27	**(23,852)**	(41,114)
Finance costs – net		**(19,312)**	(39,783)
Profit before income tax		**305,681**	240,997
Income tax expense	28	**(44,992)**	(24,803)
Profit for the year		**260,689**	216,194
Other comprehensive income:			
Currency translation differences		**63,740**	2,422
Total comprehensive income for the year		**324,429**	218,616
Profit attributable to:			
Equity holders of the Company		**260,592**	216,095
Non-controlling interests		**97**	99
		260,689	216,194

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(All amounts in HK$ unless otherwise stated)

	Note	**2010** **HK$'000**	2009 HK$'000
Total comprehensive income attributable to:			
Equity holders of the Company		**324,295**	218,517
Non-controlling interests		**134**	99
		324,429	218,616
Earnings per share for profit attributable to the equity holders of the Company (expressed in HK$ per share)			
– Basic	*32*	**0.113**	0.106
– Diluted	*32*	**0.113**	0.105
Dividends	*33*	**96,075**	87,638

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(All amounts in HK$ unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital	Reserves	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2010	48,894	1,575,882	1,624,776	1,044	1,625,820
Comprehensive income					
Profit for the year	–	260,592	260,592	97	260,689
Other comprehensive income					
Currency translation differences	311	63,392	63,703	37	63,740
Total comprehensive income	311	323,984	324,295	134	324,429
Transactions with owners					
Issuance of shares	4,700	439,330	444,030	–	444,030
Exercise of share options	2,000	68,000	70,000	–	70,000
Purchase of treasury shares	–	(13,786)	(13,786)	–	(13,786)
Dividends paid to equity holders of the Company	–	(94,196)	(94,196)	–	(94,196)
Total transactions with owners	6,700	399,348	406,048	–	406,048
Balance at 31 December 2010	55,905	2,299,214	2,355,119	1,178	2,356,297
Balance at 1 January 2009	46,959	1,321,885	1,368,844	945	1,369,789
Comprehensive income					
Profit for the year	–	216,095	216,095	99	216,194
Other comprehensive income					
Currency translation differences	77	2,345	2,422	–	2,422
Total comprehensive income	77	218,440	218,517	99	218,616
Transactions with owners					
Issue of shares – conversion of convertible bonds	1,858	98,714	100,572	–	100,572
Redemption of convertible bonds	–	(2,347)	(2,347)	–	(2,347)
Dividends paid to equity holders of the Company	–	(60,810)	(60,810)	–	(60,810)
Total transactions with owners	1,858	35,557	37,415	–	37,415
Balance at 31 December 2009	48,894	1,575,882	1,624,776	1,044	1,625,820

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010
(All amounts in HK$ unless otherwise stated)

	Note	**2010**	2009
		HK$'000	*HK$'000*
Cash flows from operating activities			
Cash generated from operations	*34(a)*	**360,603**	282,408
Interest paid		**(25,072)**	(27,246)
Income tax paid		**(47,724)**	(26,921)
Net cash generated from operating activities		**287,807**	228,241
Cash flows from investing activities			
Purchase of land use rights		**(8,452)**	(83,128)
Purchase of property, plant and equipment		**(180,288)**	(31,145)
Purchase of intangible assets		**(244)**	(518)
Proceeds from disposals of property, plant and equipment	*34(b)*	**6,751**	15,863
Purchase of financial assets at fair value through profit or loss		**(89,973)**	(74,551)
Proceeds from sale of financial assets at fair value through profit or loss		**91,381**	82,272
Proceeds from sale of land use rights		**4,176**	–
Interest received		**4,540**	1,331
Net cash used in investing activities		**(172,109)**	(89,876)
Cash flows from financing activities			
Redemption of convertible bonds		**–**	(40,268)
Proceeds from issuance of ordinary shares		**444,030**	–
Proceeds from exercise of share options		**70,000**	–
Purchase of treasury shares		**(13,786)**	–
Proceeds from bank borrowings		**342,257**	487,711
Repayments of bank borrowings		**(439,244)**	(565,020)
(Increase)/decrease in pledged bank deposits		**(21,869)**	5,171
Dividends paid to equity shareholders of the Company		**(94,196)**	(60,720)
Net cash generated from/(used in) financing activities		**287,192**	(173,126)
Net increase/(decrease) in cash and cash equivalents		**402,890**	(34,761)
Cash and cash equivalents at beginning of the year		**184,964**	219,453
Effect of foreign exchange rate changes		**11,057**	272
Cash and cash equivalents at end of the year		**598,911**	184,964

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 25 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

2.1 Basis of preparation *(continued)*

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

- HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. Adoption of HKAS 27 (revised) does not have any impact on the current period, as none of the non-controlling interests have a deficit balance, there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use rights", and amortised over the lease term.

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

2.1 Basis of preparation *(continued)*

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

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered this amendment did not have any impact to the Group as all the leases of land should still be classified as operating lease under HKAS 17 (amendment).

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The Group has treated the largest cash-generating unit to which goodwill is allocated for the purposes of impairment testing as an operating segment and the amendment does not have any impact on the Group's or Company's financial statements.

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This is not currently applicable to the Group, as it has no embedded derivatives.

- HK(IFRIC) 16, Hedges of a net investment in a foreign operation' effective 1 July 2009. This is not currently applicable to the Group, as it has no hedging activities.

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This is not currently applicable to the Group, as it has not made any non-cash distributions for the year ended 31 December 2010.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group as it does not receive from a customer any item of property, plant and equipment that the Group must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

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

2.1 Basis of preparation *(continued)*

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) *(continued)*

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. This is not currently applicable to the Group, as it does not have any plans to settle a liability by the issue of equity.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. This is not currently applicable to the Group, as it does not have such share-based payment transactions. All of its share-based payment transactions are equity-settled.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. This is not relevant to the Group, as it does not has any non-current assets held for sale and discontinued operations for the year ended 31 December 2010.

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

		Effective date
HKFRS 9	Financial Instruments: Classification and measurement	1 January 2013
HKAS 24 (revised)	Related party disclosures	1 January 2011
HKAS 32	Classification of rights issues	1 January 2011
HK (IFRIC) – Int 14	Prepayments of a minimum funding requirement	1 January 2011
HK (IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments	1 January 2011

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

2.1 Basis of preparation *(continued)*

Apart from the above, the HKICPA has issued the third annual improvements project (2010) in May 2010 which sets out amendments to a number of HKFRSs primarily with a view to remove inconsistencies and to clarify wordings. The Group has not applied the following revised HKFRSs published in the third annual improvements project.

		Effective date
HKFRS 3 (revised)	Business combinations	1 January 2011
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 January 2011
HKFRS 7	Financial Instruments: Disclosures	1 January 2011
HKAS 1	Presentation of Financial Statements	1 January 2011
HKAS 34	Interim financial reporting	1 January 2011
HK (IFRIC) – Int 13	Customer loyalty programmes	1 January 2011
HKAS 27	Consolidated and separate financial statements	1 July 2011

The Group is in the process of making assessment of the impact of these new or revised HKFRSs upon initial adoption, while it is not expected that the adoption of these new or revised HKFRSs will have a significant impact on the Group's or the Company's financial statements.

2.2 Consolidation

(a) Subsidiaries

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

2.2 Consolidation *(continued)*

(a) ***Subsidiaries*** *(continued)*

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses (Note 2.8). The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

(b) ***Transactions with non-controlling interests***

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Segment reporting

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

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity.

The Company used to adopt RMB as its functional currency. Following a change of its underlying transactions, events and conditions that are relevant to the Company in 2010 as a result of the business expansion plan of the Company in the Hong Kong market, the functional currency of the Company was changed to Hong Kong Dollars ("HK$") with effect from 1 September 2010. The directors of the Company consider more appropriate to use HK$ as its functional currency. This change was applied prospectively.

The consolidated financial statements are presented in HK$, which is the Group's presentation currency.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'Other gains – net'.

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

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

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

2.4 Foreign currency translation *(continued)*

(c) Group companies

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

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

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

(iii) all resulting exchange differences are recognised in other comprehensive income.

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

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

2.5 Property, plant and equipment

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

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

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

2.5 Property, plant and equipment *(continued)*

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

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

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

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

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

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

2.6 Land use rights

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

2.7 Intangible assets

(a) Goodwill

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

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

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

2.7 Intangible assets *(continued)*

(b) Trademarks and patents

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

– Trademarks	50 years
– Patents	5-10 years

(c) Customer relationships

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

(d) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5-10 years).

2.8 Impairment of investment in subsidiaries and non-financial assets

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

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

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

2.9 Financial assets

2.9.1 Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

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

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

(c) Available-for-sale financial assets

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

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

2.9 Financial assets *(continued)*

2.9.2 Recognition and measurement

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

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

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

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

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

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

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

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

2.9.3 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

2.9.3 Impairment of financial assets *(continued)*

(a) Assets carried at amortised cost *(continued)*

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement.

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

2.10 Inventories

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

2.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Trade and other payables

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

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

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

2.15 Borrowings

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

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

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

2.16 Compound financial instruments

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

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

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

2.17 Borrowing costs

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

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

2.18 Current and deferred income tax

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

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

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

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

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

2.19 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

(i) Defined contribution plan

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

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

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

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

2.19 Employee benefits *(continued)*

(b) Pension obligations *(continued)*

(ii) Defined benefit plan

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

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

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

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

(iii) Other post-retirement benefits

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

(iv) Termination benefits

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

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

2.19 Employee benefits *(continued)*

(c) Share-based compensation

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

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

The grant by the Company of options over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary with a corresponding credit to equity.

(d) Bonus plan

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

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

2.20 Provisions

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

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

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

2.21 Government grants

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

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

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

2.22 Revenue recognition

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

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

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

2.22 Revenue recognition *(continued)*

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

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

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

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

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

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

2.23 Operating leases

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

(a) As a lessee

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

(b) As a lessor

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

2.24 Research and development costs

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

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

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

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

2.24 Research and development costs *(continued)*

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

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

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

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

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

2.25 Contingent liabilities

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

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

2.26 Dividend distributions

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

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

2.27 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

2.28 Changes in accounting policy

In November 2010, the HKICPA issued Hong Kong Interpretation 5: Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. The Interpretation is effective immediately and is a clarification of an existing standard. HKICPA clarified that a term loan that contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of Hong Kong Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to demand the repayment at any time are classified as current liabilities in the balance sheet. Previously, such term loans were classified in accordance with the agreed repayment schedule unless the Group had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1 January 2009, with consequential reclassification adjustments to comparatives for the year ended 31 December 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for all the period presented.

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

2.28 Changes in accounting policy *(continued)*

Effect of adoption of Hong Kong Interpretation 5 on the balance sheets:

	As at 31 December 2010 ***HK$'000***	As at 31 December 2009 *HK$'000*	As at 1 January 2009 *HK$'000*
Increase/(decrease) in			
Current liabilities			
Borrowings	**12,500**	25,000	39,750
Non-current liabilities			
Borrowings	**(12,500)**	(25,000)	(39,750)

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign currency exchange risk

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

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign currency exchange risk (continued)

At 31 December 2010, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's profit before tax for the year would have been HK$10,473,000 high/lower, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents, prepayments and other receivables, accruals and other payables, and borrowings. At 31 December 2009, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's profit before tax for the year would have been HK$ 3,817,000 higher/lower.

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

Except for its pledged bank deposits and cash at banks totalled HK$628,353,000 as at 31 December 2010 (31 December 2009: 192,736,000), which carried a weighted average interest rate of 1.2% (31 December 2009: 0.7%) per annum, the Group has no significant interest-bearing assets.

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

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

At the balance sheet date, if interest rate had been increased/decreased by 0.6 percentage-point and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2010 would decrease/increase by approximately HK$950,000 (31 December 2009: 0.6 percentage-point, HK$3,353,000). This relates primarily to interest expense on bank borrowings.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

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

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

As at 31 December 2010, 91% of the Group's bank deposits are placed in major financial institutions located in PRC and HK, which management believes are of high credit quality without significant credit risk (31 December 2009: 92%). The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers *(Note 13)*. As at 31 December 2010, majority of trade receivables are with customers having an appropriate credit history.

As at 31 December 2010, out of the total trade and bills receivables, 39% are bank acceptance notes (31 December 2009: 44%), of which the credit risks rest with the acceptance banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the acceptance banks.

(c) Liquidity risk

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) ***Liquidity risk*** *(continued)*

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2010					
Borrowings	366,552	66,594	–	–	433,146
Interests payments on borrowings	11,771	1,469	–	–	13,240
Trade and bills payables	206,322	–	–	–	206,322
Accruals and other payables	102,869	–	–	–	102,869
	687,514	68,063	–	–	755,577
At 31 December 2009					
Borrowings	460,796	34,072	19,100	–	513,968
Interests payments on borrowings	16,307	1,370	1,052	–	18,729
Trade and bills payables	143,942	–	–	–	143,942
Accruals and other payables	51,761	–	–	–	51,761
	672,806	35,442	20,152	–	728,400

3.2 Capital risk management

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

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

The gearing ratio was as follows:

	2010	2009
	HK$'000	*HK$'000*
Bank borrowings	**433,146**	513,968
Less: Pledged bank deposits and cash and cash equivalents	**(629,442)**	(193,626)
Net borrowings	**(196,296)**	320,342
Total equity less non-controlling interests	**2,355,119**	1,624,776
Gearing ratio	**(8.3%)**	19.7%

The gearing ratio has been significantly improved as a result of the Company's issuance of new ordinary shares in 2010.

3.3 Fair value estimation

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

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

As of 31 December 2010, the Group did not have any balance of assets or liabilities that were measured at fair value (31 December 2009: HK$87,000). The fair value of financial assets traded in active markets (such as financial assets at fair value through profit or loss) that were recorded during the year ended 31 December 2010 is based on quoted market prices at the reporting date (level 1).

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

(c) Impairment of goodwill

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

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

(d) Net realisable value of inventories

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

(e) Impairment of receivables

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

(f) Post-employment benefits obligation

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

(g) Current tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

5. SEGMENT INFORMATION – GROUP

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

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

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

Unallocated operating loss was mainly attributable to corporate expenses.

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

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

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

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2010 is as follows:

	Intravenous infusion solution *HK$'000*	**Antibiotics and others** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Revenue	788,904	1,182,753	–	1,971,657
Operating profit/(loss) segment results	202,319	143,940	(21,266)	324,993
Finance income	562	3,049	929	4,540
Finance costs	(8,844)	(12,696)	(2,312)	(23,852)
Profit/(loss) before income tax	194,037	134,293	(22,649)	305,681
Income tax expense	(28,680)	(16,312)	–	(44,992)
Profit/(loss) for the year	165,357	117,981	(22,649)	260,689

5. SEGMENT INFORMATION – GROUP *(continued)*

Other segment items included in the consolidated income statement for the year ended 31 December 2010 are as follows:

	Intravenous infusion solution *HK$'000*	**Antibiotics and others** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Amortisation of land use rights	1,652	3,747	–	5,399
Depreciation of property, plant and equipment	55,566	23,758	748	80,072
Amortisation of intangible assets	16,916	1,189	–	18,105
Impairment of inventories	–	708	–	708
Provision for/(Reversal of) impairment of receivables	254	(1,341)	–	(1,087)
Research and development expenses	3,709	9,513	–	13,222

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

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

5. SEGMENT INFORMATION – GROUP *(continued)*

Other segment items included in the consolidated income statement for the year ended 31 December 2009 are as follows:

	Intravenous infusion solution	**Antibiotics and others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of land use rights	1,572	3,687	–	5,259
Depreciation of property, plant and equipment	47,912	23,898	746	72,556
Amortisation of intangible assets	16,511	1,117	–	17,628
Reversal of impairment of inventories	–	(7,311)	–	(7,311)
Provision for/(Reversal of) impairment of receivables	856	(6,335)	–	(5,479)
Research and development expenses	1,646	7,721	–	9,367

The segment assets and liabilities at 31 December 2010 are as follows:

	Intravenous infusion solution	**Antibiotics and others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,843,768	1,209,169	319,774	3,372,711
Total liabilities	554,886	422,793	38,735	1,016,414

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

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

5. SEGMENT INFORMATION – GROUP *(continued)*

The total of non-current assets were as follows:

	2010	2009
	HK$'000	*HK$'000*
Total non-current assets other than deferred tax assets		
– Mainland China	**1,760,111**	1,580,474
– Hong Kong	**1,650**	2,319
Deferred tax assets	**21,200**	17,037
Total non-current assets	**1,782,961**	1,599,830

The chief operating decision-maker has also determined that no geographical segment information is presented as 100% of the Group's sales and operating profits are derived within the PRC and over 90% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

6. LAND USE RIGHTS – GROUP

	2010	2009
	HK$'000	*HK$'000*
At 1 January		
Cost	**217,158**	216,392
Accumulated amortisation	**(7,911)**	(2,356)
Net book amount	**209,247**	214,036
Year ended 31 December		
Opening net book amount	**209,247**	214,036
Additions	**8,452**	131
Disposals	**(3,986)**	–
Amortisation	**(5,399)**	(5,259)
Exchange differences	**7,251**	339
Closing net book amount	**215,565**	209,247
At 31 December		
Cost	**229,049**	217,158
Accumulated amortisation	**(13,484)**	(7,911)
Net book amount	**215,565**	209,247

Land use rights are located in Hebei Province and Shaanxi Province, the Mainland China, and are held on leases of 37 to 50 years from the dates of acquisition.

As at 31 December 2010, the Group's land use rights with net book amount of HK$65,449,000 (31 December 2009: HK$64,854,000) were pledged as collateral for the Group's bank borrowings *(Note 20)*.

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

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Vehicle HK$'000	Construction-in-progress HK$'000	Total HK$'000
At 1 January 2009						
Cost	332,335	611,726	42,509	44,363	134,491	1,165,424
Accumulated depreciation	(71,310)	(260,329)	(21,626)	(19,071)	–	(372,336)
Impairment losses	–	(233)	–	–	–	(233)
Net book amount	261,025	351,164	20,883	25,292	134,491	792,855
Year ended 31 December 2009						
Opening net book amount	261,025	351,164	20,883	25,292	134,491	792,855
Additions	2,696	60,878	10,994	6,322	37,386	118,276
Transfers	13,906	116,692	1,563	–	(132,161)	–
Disposals	(8)	(12,673)	(49)	(799)	(1,973)	(15,502)
Depreciation	(13,893)	(47,689)	(5,923)	(5,051)	–	(72,556)
Impairment	–	(1,194)	–	–	–	(1,194)
Exchange differences	422	656	39	41	137	1,295
Closing net book amount	264,148	467,834	27,507	25,805	37,880	823,174
At 31 December 2009						
Cost	348,979	763,970	54,699	49,716	37,880	1,255,244
Accumulated depreciation	(84,831)	(294,709)	(27,192)	(23,911)	–	(430,643)
Impairment losses	–	(1,427)	–	–	–	(1,427)
Net book amount	264,148	467,834	27,507	25,805	37,880	823,174
Year ended 31 December 2010						
Opening net book amount	264,148	467,834	27,507	25,805	37,880	823,174
Additions	14,791	56,635	7,434	5,179	144,569	228,608
Transfers	44,892	3,485	2,978	–	(51,355)	–
Transfer to Intangible assets *(Note 8)*	–	–	–	–	(803)	(803)
Disposals	(11)	(5,468)	(39)	(170)	–	(5,688)
Depreciation	(17,533)	(50,370)	(6,580)	(5,589)	–	(80,072)
Impairment	–	(2,169)	–	–	–	(2,169)
Exchange differences	9,905	16,284	1,024	883	2,921	31,017
Closing net book amount	316,192	486,231	32,324	26,108	133,212	994,067
At 31 December 2010						
Cost	414,056	837,766	67,220	56,257	133,212	1,508,511
Accumulated depreciation	(97,864)	(347,851)	(34,896)	(30,149)	–	(510,760)
Impairment losses	–	(3,684)	–	–	–	(3,684)
Net book amount	316,192	486,231	32,324	26,108	133,212	994,067

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

Group *(continued)*

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

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

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

	2010	2009
	HK$'000	*HK$'000*
Cost of sales	**54,269**	47,679
Selling and marketing costs	**1,639**	2,348
General and administrative expenses	**24,164**	22,529
	80,072	72,556

As at 31 December 2010, buildings, plant and machinery with net book amount of HK$246,749,000 (31 December 2009: HK$356,497,000) were pledged as collateral for the Group's bank borrowings *(Note 20)*.

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

Company

	Furniture, fixtures and office equipment *HK$'000*	**Vehicles** *HK$'000*	**Total** *HK$'000*
At 1 January 2009			
Cost	2,712	2,149	4,861
Accumulated depreciation	(646)	(1,155)	(1,801)
Net book amount	2,066	994	3,060
Opening net book amount	2,066	994	3,060
Depreciation	(305)	(440)	(745)
Exchange differences	3	1	4
Closing net book amount	1,764	555	2,319
At 31 December 2009			
Cost	2,712	2,149	4,861
Accumulated depreciation	(948)	(1,594)	(2,542)
Net book amount	1,764	555	2,319
Year ended 31 December 2010			
Opening net book amount	1,764	555	2,319
Addition	12	–	12
Depreciation	(299)	(449)	(748)
Exchange differences	60	7	67
Closing net book amount	1,537	113	1,650
At 31 December 2010			
Cost	2,823	2,227	5,050
Accumulated depreciation	(1,286)	(2,114)	(3,400)
Net book amount	1,537	113	1,650

8. INTANGIBLE ASSETS – GROUP

	Goodwill	Trademark and patents	Software	Customer relationships	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009					
Cost	455,586	62,965	343	68,421	587,315
Accumulated amortisation	–	(4,915)	(223)	(15,737)	(20,875)
Net book amount	455,586	58,050	120	52,684	566,440
Year ended 31 December 2009					
Opening net book amount	455,586	58,050	120	52,684	566,440
Addition	–	–	518	–	518
Amortisation	–	(2,498)	(65)	(15,065)	(17,628)
Exchange differences	730	91	1	73	895
Closing net book amount	456,316	55,643	574	37,692	550,225
At 31 December 2009					
Cost	456,316	63,064	862	68,531	588,773
Accumulated amortisation	–	(7,421)	(288)	(30,839)	(38,548)
Net book amount	456,316	55,643	574	37,692	550,225
Year ended 31 December 2010					
Opening net book amount	456,316	55,643	574	37,692	550,225
Addition	–	–	244	–	244
Transfer from construction-in-progress *(Note 7)*	–	–	803	–	803
Amortisation	–	(2,542)	(229)	(15,334)	(18,105)
Exchange differences	15,846	1,888	34	1,042	18,810
Closing net book amount	472,162	54,989	1,426	23,400	551,977
At 31 December 2010					
Cost	472,162	65,254	1,957	70,910	610,283
Accumulated amortisation	–	(10,265)	(531)	(47,510)	(58,306)
Net book amount	472,162	54,989	1,426	23,400	551,977

Amortisation of HK$18,105,000 (2009: HK$17,628,000) is included in general and administrative expenses.

8. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment test of goodwill:

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

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

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

	2010	2009
Gross margin	**45.0%**	48.0%
Growth rate	**3%**	3%
Pre-tax discount rate	**12.0%**	12.0%

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

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

	2010 *HK$'000*	2009 *HK$'000*
Investments in unlisted shares, at cost	**1,188,687**	1,181,668
Advance to a subsidiary – non-current	**18,272**	14,427
	1,206,959	1,196,095

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

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

The following are details of principal subsidiaries, all of which are unlisted, at 31 December 2010:

Name	Place of incorporation and type of legal entity	Principal activities and place of operations	Particulars of issued and fully paid share capital	Interest held	
				2010	2009
New Orient Investments Limited ("New Orient")	Limited liability company incorporated in Samoa	Investment holding company in Hong Kong	USD 1	**100% (Directly held)**	100% (Directly held)
Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("No. 4 Pharm")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China	RMB160,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Shaanxi Province, Mainland China	RMB280,000,000	**100% (Directly held)**	100% (Directly held)
Shenzhen Lijun Pharmaceutical Co., Ltd. ("Shenzhen Lijun")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Guangdong Province, Mainland China	RMB5,000,000	**68% (Indirectly held)**	68% (Indirectly held)

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2010 (2009: None).

Amounts due from subsidiaries – current

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

10. DEFERRED INCOME TAX – GROUP

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

	2010	2009
	HK$'000	*HK$'000*
Deferred tax assets:		
– to be recovered after more than 12 months	**3,539**	3,107
– to be recovered within 12 months	**17,661**	13,930
	21,200	17,037
Deferred tax liabilities:		
– to be settled after more than 12 months	**23,225**	25,480
– to be settled within 12 months	**3,025**	2,994
	26,250	28,474
Deferred tax liabilities – net	**5,050**	11,437

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

	2010	2009
	HK$'000	*HK$'000*
Beginning of the year	**11,437**	21,393
Credited to the consolidated income statement *(Note 28)*	**(6,667)**	(9,035)
Credited to equity	**–**	(950)
Exchange differences	**280**	29
End of the year	**5,050**	11,437

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

The movements in deferred tax assets are as follows:

	Accrual of expenses *HK$'000*	**Provision for impairments** *HK$'000*	**Post-employment benefits** *HK$'000*	**Total** *HK$'000*
At 1 January 2009	6,424	5,028	4,174	15,626
Credited/(charged) to the consolidated income statement	3,009	(1,157)	(465)	1,387
Exchange differences	13	7	4	24
At 31 December 2009	9,446	3,878	3,713	17,037
Credited/(charged) to the consolidated income statement	2,116	2,104	(712)	3,510
Exchange differences	368	171	116	653
At 31 December 2010	11,930	6,153	3,117	21,200

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. For the year ended 31 December 2010, the Group did not recognise any deferred tax assets relating to these tax losses. Those tax losses amounted to HK$ 22,649,000 in 2010 (2009: HK$ 29,206,000).

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

The movements in deferred tax liabilities are as follows:

	Equity component of convertible bonds *HK$'000*	**Revaluation of assets on acquisition** *HK$'000*	**Total** *HK$'000*
At 1 January 2009	950	36,069	37,019
Credited to the consolidated income statement	–	(7,648)	(7,648)
Credited to equity			
– Redemption of convertible bonds	(320)	–	(320)
– Conversion of convertible bonds	(630)	–	(630)
Exchange differences	–	53	53
At 31 December 2009	–	28,474	28,474
Credited to the consolidated income statement	–	(3,157)	(3,157)
Exchange differences	–	933	933
At 31 December 2010	–	26,250	26,250

As at 31 December 2010, deferred income tax liabilities of HK$50,316,000 (31 December 2009: HK$29,910,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled HK$ 604,764,000 at 31 December 2010 (31 December 2009: HK$ 351,127,000).

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2010	2009
	HK$'000	*HK$'000*
Beginning of the year	**147**	146
Exchange differences	**5**	1
End of the year	**152**	147

As at 31 December 2010, available-for-sale financial asset amounting to HK$152,000 (31 December 2009: HK$147,000) represents a 14.37% equity interest in Xi'an Lijun Transportation Co., Ltd., which is an unlisted company. Since the range of reasonable fair value estimate is significant and the probabilities of various estimates cannot be reasonably assessed, the available-for-sale financial asset is carried at cost less accumulated impairment losses.

12. INVENTORIES – GROUP

	2010	2009
	HK$'000	*HK$'000*
Raw materials	**144,283**	111,313
Work in progress	**17,944**	14,977
Finished goods	**136,380**	103,087
	298,607	229,377

The Group recorded an inventory write-down of HK$708,000 during the year ended 31 December 2010 (2009: reversal of inventory write-down of HK$7,311,000). The provision has been included in cost of sales.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$715,233,000 (2009: HK$645,398,000).

13. TRADE AND BILLS RECEIVABLES – GROUP

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**314,604**	245,527
Bills receivable	**187,820**	181,205
Less: provision for impairment	**(17,456)**	(18,338)
	484,968	408,394

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

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

	2010	2009
	HK$'000	*HK$'000*
Within 3 months	**441,976**	370,110
4 to 6 months	**28,462**	22,107
7 to 12 months	**9,000**	12,831
1 to 2 years	**9,212**	13,741
2 to 3 years	**9,808**	7,413
More than 3 years	**3,966**	530
	502,424	426,732

As at 31 December 2010, past-due trade and bills receivables amounting to approximately HK$60,448,000 (31 December 2009: HK$56,622,000) were assessed for impairment and provision of HK$17,456,000 (31 December 2009: HK$18,338,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year. Collateral or other credit enhancement held by the Group have been considered when determining the impairment provision.

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

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

	2010	2009
	HK$'000	*HK$'000*
4 to 6 months	**–**	429
7 to 12 months	**–**	285
1 to 2 years	**9,212**	13,741
2 to 3 years	**9,808**	7,413
More than 3 years	**3,966**	530
	22,986	22,398
Less: Expected recovery	**(8,695)**	(7,877)
Impairment	**14,291**	14,521

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

	2010	2009
	HK$'000	*HK$'000*
Beginning of the year	**18,338**	22,765
Reversal of impairment	**(1,493)**	(4,460)
Exchange differences	**611**	33
End of the year	**17,456**	18,338

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

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

	2010	2009
	HK$'000	*HK$'000*
RMB	**487,249**	413,983
USD	**15,175**	12,749
	502,424	426,732

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

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

	2010 HK$'000	2009 HK$'000
Listed securities:		
– Equity securities – the Mainland China	–	87

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

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

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Amounts due from the agent companies *(Note 18)*	94,429	–	–	–
Prepayments for purchases of inventories	30,108	31,629	–	–
Prepayments for purchases of machineries	16,461	7,322	–	–
Prepaid advertising costs	10,855	12,741	–	–
Amounts due from related parties *(Note 35(c))*	11,430	7,956	–	–
Staff advances	6,348	4,348	–	–
Deposits	1,662	1,233	1,436	1,056
Prepaid insurance costs	980	762	–	–
Other receivables	4,460	2,954	–	–
	176,733	68,945	1,436	1,056

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Pledged bank deposits	**30,531**	8,662	**–**	8,548
Cash at bank and in hand	**598,911**	184,964	**316,688**	7,714
	629,442	193,626	**316,688**	16,262

Pledged bank deposits are pledged for:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings *(Note 20)*	**–**	8,548	**–**	8,548
Payable for property, plant and equipment *(Note 24)*	**–**	114	**–**	–
Bills payable	**30,531**	–	**–**	–
	30,531	8,662	**–**	8,548

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

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**311,518**	176,665	**10**	9
HK$	**316,387**	15,961	**316,368**	15,942
USD	**1,537**	1,000	**310**	311
	629,442	193,626	**316,688**	16,262

The interest bearing bank deposits (included in pledged bank deposits and cash at bank) carried a weighted average interest rate of 1.2% per annum for the year ended 31 December 2010 (2009: 0.7%). These deposits had maturity of six months at inception (2009: 14 days), other than those without pre-determined maturity terms.

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

17. SHARE CAPITAL

	Number of shares	Ordinary shares
	'000	*HK$'000*
Authorised		
At 31 December 2009 and 2010 (ordinary shares of HK$0.02 each)	10,000,000	200,000
Issued and fully paid up		
At 1 January 2009 (ordinary shares of HK$0.02 each)	2,027,003	46,959
Issuance of shares – conversion of convertible bonds	92,901	1,858
Currency translation differences	–	77
At 31 December 2009 (ordinary shares of HK$0.02 each)	2,119,904	48,894
Issuance of shares – placing of shares	235,000	4,700
Issuance of shares – exercise of share options *(Note 18)*	100,000	2,000
Currency translation differences	–	311
At 31 December 2010 (ordinary shares of HK$0.02 each)	2,454,904	55,905

On 27 April 2010, 205,000,000 and 30,000,000 shares have been placed to Value Partners Limited and Atlantis Investment Management Limited respectively at the price of HK$1.9 per share.

The Company acquired 6,040,000 of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in a period from 28 to 31 December 2010. The consideration for the acquisition of those shares was HK$13,786,000 and has been deducted from retained earnings within reserve *(Note 19)*. The shares are held as 'treasury shares'. All shares issued by the Company were fully paid. The Company subsequently cancelled those 6,040,000 treasury shares on 14 January 2011.

18. SHARE-BASED PAYMENT

Share option scheme

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

18. SHARE-BASED PAYMENT *(continued)*

Share option scheme *(continued)*

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

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

On 4 October 2010, all share options were exercised which resulted in 100,000,000 shares being issued at HK$0.7 each. The related weighted average share price at the time of exercise was HK$3.04 per share. Such 100,000,000 shares granted to certain directors and employees of the Group in 2008 were also fully disposed on the exercise date in 2010. According to the relevant PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for those directors and employees' gain from their share disposal (through the agent companies). In this regard, HK$94,429,000 receivables (Note 15) and the same amount of payables (Note 24) relating to PRC individual income taxes in total have been recorded in the consolidated financial statements.

	For the year ended 31 December			
	2010		2009	
	Average exercise price in HK$	**Number of share options**	Average exercise price in HK$	Number of share options
At 1 January	**0.7**	**100,000,000**	0.7	100,000,000
Exercised	**0.7**	**(100,000,000)**	–	–
At 31 December	**–**	**–**	0.7	100,000,000

19. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000	Equity component of convertible bonds HK$'000	Statutory reserve HK$'000	Share-based payment reserve (Note 18) HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2009	737,532	175,266	7,028	115,077	15,284	271,698	1,321,885
Issue of shares							
– conversion of convertible bonds	103,395	–	(4,681)	–	–	–	98,714
Redemption of convertible bonds	–	–	(2,347)	–	–	–	(2,347)
Profit for the year	–	–	–	–	–	216,095	216,095
Dividends paid to equity holders of the Company	–	–	–	–	–	(60,810)	(60,810)
Transfer to statutory reserve	–	–	–	24,255	–	(24,255)	–
Currency translation differences	1,249	281	–	223	24	568	2,345
At 31 December 2009	842,176	175,547	–	139,555	15,308	403,296	1,575,882
Issue of shares							
– placing of shares	439,330	–	–	–	–	–	439,330
Exercise of share options	83,346	–	–	–	(15,346)	–	68,000
Purchase of treasury shares	–	–	–	–	–	(13,786)	(13,786)
Profit for the year	–	–	–	–	–	260,592	260,592
Dividends paid to equity holders of the Company	–	–	–	–	–	(94,196)	(94,196)
Transfer to statutory reserve	–	–	–	28,792	–	(28,792)	–
Currency translation differences	7,021	1,123	–	4,894	38	50,316	63,392
At 31 December 2010	1,371,873	176,670	–	173,241	–	577,430	2,299,214

19. RESERVES *(continued)*

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

Company

	Share premium *HK$'000*	Capital reserve *HK$'000*	Equity component of convertible bonds *HK$'000*	Share-based payment reserve *(Note 18)* *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2009	737,532	172,402	7,028	15,284	53,040	985,286
Issue of shares						
– conversion of convertible bonds	103,395	–	(4,681)	–	–	98,714
Redemption of convertible bonds	–	–	(2,347)	–	–	(2,347)
Profit for the year	–	–	–	–	55,182	55,182
Dividends paid to equity holders of the Company	–	–	–	–	(60,810)	(60,810)
Currency translation differences	1,249	276	–	24	85	1,634
At 31 December 2009	842,176	172,678	–	15,308	47,497	1,077,659
Issue of shares						
– placing of shares	439,330	–	–	–	–	439,330
Exercise of share options	83,346	–	–	(15,346)	–	68,000
Purchase of treasury shares	–	–	–	–	(13,786)	(13,786)
Profit for the year	–	–	–	–	121,192	121,192
Dividends paid to equity holders of the Company	–	–	–	–	(94,196)	(94,196)
Currency translation differences	7,021	1,025	–	38	279	8,363
At 31 December 2010	1,371,873	173,703	–	–	60,986	1,606,562

20. BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)
Non-current				
Non-current portion of long-term bank borrowings	**66,594**	53,172	**–**	–
Current				
Current portion of long-term bank borrowings	**35,256**	22,715	**–**	–
Short-term bank borrowings	**331,296**	438,081	**37,500**	86,000
	366,552	460,796	**37,500**	86,000
Total borrowings	**433,146**	513,968	**37,500**	86,000
Representing:				
Unsecured	**213,777**	285,792	**37,500**	70,000
Secured (i)	**176,278**	199,076	**–**	6,000
Guaranteed (ii)	**43,091**	29,100	**–**	10,000
	433,146	513,968	**37,500**	86,000

(i) As at 31 December 2010, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK$65,449,000 (31 December 2009: HK$64,854,000), and the Group's buildings, plant and machinery with a net book amount of HK$246,749,000 (31 December 2009: HK$356,497,000). As at 31 December 2009, certain of the Group's borrowings were secured by the Group's bank deposits of HK$8,548,000.

(ii) As at 31 December 2010 and 2009, certain of the Group's bank borrowings were guaranteed by Xi'an Lijun Pharmaceutical Co., Ltd., a wholly owned subsidiary of the Company .

20. BORROWINGS *(continued)*

As at 31 December 2010, the Group's borrowings were repayable as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)
Within 1 year	**366,552**	460,796	**37,500**	86,000
Between 1 and 2 years	**66,594**	34,072	**–**	–
Between 2 and 5 years	**–**	19,100	**–**	–
	433,146	513,968	**37,500**	86,000

The borrowings were denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**352,556**	408,868	**–**	–
HK$	**80,590**	105,100	**37,500**	86,000
	433,146	513,968	**37,500**	86,000

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

	2010		2009	
	HK$	***RMB***	*HK$*	*RMB*
Bank borrowings	**3.3%**	**5.5%**	3.4%	5.7%

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

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)		(restated)		(restated)
Bank borrowings	**66,594**	53,172	**64,802**	49,843	**–**	–	**–**	–

20. BORROWINGS *(continued)*

As at 31 December 2010, the Group has the following undrawn borrowing facilities:

	2010	2009
	HK$'000	*HK$'000*
Fixed rates		
– expiring within one year	**188,030**	79,502
– expiring beyond one year	**–**	133,117
Floating rates		
– expiring within one year	**132,326**	25,000
– expiring beyond one year	**–**	23,383
	320,356	261,002

21. DEFERRED REVENUE – GROUP

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

22. LONG-TERM PAYABLES – GROUP

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

	2010	2009
	HK$'000	*HK$'000*
Within 1 year	**1,435**	1,997
Between 1 to 2 years	**1,050**	1,361
Between 2 to 5 years	**2,606**	2,651
More than 5 years	**11,402**	11,177
	16,493	17,186
Less: Current portion included in current liabilities *(Note 24)*	**(1,435)**	(1,997)
	15,058	15,189

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

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

	2010	2009
	HK$'000	*HK$'000*
Beginning of the year	**17,186**	19,508
Total expense, included in staff costs		
– Current service cost	**1,157**	1,580
– Interest cost	**659**	670
– Actuarial gain	**(109)**	(798)
Contribution paid	**(3,377)**	(3,801)
Exchange differences	**977**	27
End of the year	**16,493**	17,186

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

	2010	2009
Discount rate	**4.2%**	4.2%
Annual resignation rate	**2.7%**	2.7%

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

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

23. TRADE AND BILLS PAYABLES – GROUP

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**175,791**	143,942
Bills payable	**30,531**	–
	206,322	143,942

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

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

	2010	2009
	HK$'000	*HK$'000*
Within 3 months	**170,213**	110,544
4 to 6 months	**21,521**	19,964
7 to 12 months	**9,723**	8,285
1 to 3 years	**3,556**	4,644
More than 3 years	**1,309**	505
	206,322	143,942

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

24. ACCRUALS AND OTHER PAYABLES

	Group		**Company**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Withholding individual income tax payables *(Note 18)*	**94,429**	–	**–**	–
Payables for purchase of property, plant and equipment	**74,339**	24,334	**–**	–
Accrued sales commission	**57,689**	49,479	**–**	–
Payables for advertising expense	**14,250**	11,137	**–**	–
Value added tax payable	**10,609**	14,702	**–**	–
Welfare payables	**9,029**	8,794	**–**	–
Other taxes payables	**9,362**	7,258	**–**	–
Accrued salaries and wages	**5,844**	8,917	**1,170**	1,579
Professional fee payables	**1,520**	2,275	**–**	422
Current portion of long-term payables *(Note 22)*	**1,435**	1,997	**–**	–
Others	**11,326**	10,001	**65**	–
	289,832	138,894	**1,235**	2,001

As at 31 December 2010, none of the Group's bank deposits (2009: HK$114,000) were pledged as collateral for the payables for purchase of property, plant and equipment.

25. REVENUE AND OTHER GAINS – GROUP

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

Revenue recognised is as follows:

	2010	2009
	HK$'000	*HK$'000*
Revenue:		
– Sales of pharmaceutical products	**1,963,614**	1,732,327
– Sales of raw materials and by products	**993**	3,079
– Processing income	**5,055**	1,826
– Rental income	**1,995**	2,396
	1,971,657	1,739,628
Other gains – net:		
– Gain on disposal of financial assets at fair value through profit or loss	**1,321**	5,199
– Gain on redemption of convertible bonds	**–**	9,043
– Subsidy income	**8,745**	5,687
– Others	**–**	1,475
	10,066	21,404
	1,981,723	1,761,032

26. EXPENSE BY NATURE – GROUP

	2010 HK$'000	2009 HK$'000
Raw materials and consumables used	**749,899**	636,326
Changes in inventories of finished goods and work in progress	**(34,666)**	9,072
Staff costs		
– Wages and salaries	**202,892**	167,028
– Pension costs	**18,120**	16,472
– Welfare expenses	**37,979**	33,057
Sales commission	**183,512**	200,512
Utility expenses	**91,604**	74,539
Advertising expenses	**67,493**	62,906
Travelling, meeting and entertainment expenses	**58,583**	39,328
Operating leases rental expenses	**3,689**	5,139
Research and development expenses	**13,222**	9,367
Depreciation of property, plant and equipment	**80,072**	72,556
Write-down of/(Reversal of) inventories to their net realisable value	**708**	(7,311)
Reversal of impairment of receivables	**(1,087)**	(5,479)
Provision for impairment of property, plant and equipment	**2,169**	1,194
Amortisation of intangible assets	**18,105**	17,628
Amortisation of land use rights	**5,399**	5,259
Auditors' remuneration	**3,000**	2,270
Gain on disposals of property, plant and equipment	**(1,063)**	(361)
Gain on disposals of land use rights	**(190)**	–
Transportation expenses	**74,619**	58,172
Others	**82,671**	82,578
Total cost of sales, selling and marketing costs and general and administrative expenses	**1,656,730**	1,480,252

27. FINANCE INCOME AND COSTS – GROUP

	2010 HK$'000	2009 HK$'000
Finance income – Interest income on bank deposits	**4,540**	1,331
Finance costs		
– Interest expense of bank borrowings wholly repayable within five years	**23,476**	26,096
– Discount of bills receivable	**1,596**	1,115
– Convertible bonds	**–**	13,703
– Net exchange (gain)/loss	**(1,220)**	200
	23,852	41,114

28. INCOME TAX EXPENSE – GROUP

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

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

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No. 4 Pharmaceutical Co., Ltd., the wholly owned subsidiaries of the Company, established and operate in Mainland China are subject to Mainland China Enterprise Income Tax ("EIT") at an applicable rate of 25%.

Both subsidiaries are wholly foreign owned enterprises and had obtained approvals from the relevant Mainland China Tax authority for their entitlement of a two-year full exemption followed by a three-year 50% tax deduction, commencing from the first cumulative profit-making year net of losses carried forward, i.e. 2005. Accordingly, EIT rate applicable to both subsidiaries was 12.5% during the year ended 31 December 2009, which is the last year of tax holiday.

For the year ended 31 December 2010, both subsidiaries are qualified as high new tech enterprises and entitled to a 15% preferential EIT rate for the years from 2010 to 2012.

The amounts of taxation charged to the consolidated income statement:

	2010	2009
	HK$'000	*HK$'000*
Current income taxation – Mainland China EIT	**51,659**	33,838
Deferred taxation *(Note 10)*	**(6,667)**	(9,035)
	44,992	24,803

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

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

	2010 **HK$'000**	2009 HK$'000
Profit before income tax	**305,681**	240,997
Tax calculated at the domestic tax rate of 15% (2009:25%) applicable to the subsidiaries	**45,852**	60,249
Tax exemption and reduction	**(4,785)**	(40,930)
Unrecognised tax losses	**3,398**	6,796
Expenses not deductible	**527**	394
Remeasurement of deferred tax – change in income tax rate	**–**	(1,706)
Tax expense	**44,992**	24,803
Effective tax rate	**14.7%**	10.3%

29. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$121,192,000 (2009: HK$55,182,000).

30. RETIREMENT BENEFITS – GROUP

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

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

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP

(a) Directors' emoluments

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

2010

Name	Fees *HK$'000*	Salaries *HK$'000*	Other benefits *HK$'000*	Pension *HK$'000*	Total *HK$'000*
Executive directors					
Mr. Wu Qin	–	3,000	33	37	3,070
Mr. Qu Jiguang	–	2,600	14	32	2,646
Mr. Xie Yunfeng	–	600	34	13	647
Mr. Huang Chao	–	600	33	24	657
Ms. Sun Xinglai	–	764	76	12	852
Mr. Wang Xianjun	–	1,102	698	12	1,812
Mr. Duan Wei	–	600	12	20	632
Ms. Zhang Guifu	–	300	12	20	332
Mr. Bao Leyuan	–	300	33	13	346
Ms. Gao Shuping	–	500	11	20	531
	–	10,366	956	203	11,525
Non-executive director					
Mr. Liu Zhiyong	60	-	-	-	60
Independent non-executive directors					
Mr. Wang Yibing	180	-	-	-	180
Mr. Leung Chong Shun	180	-	-	-	180
Mr. Chow Kwok Wai	180	-	-	-	180
	540	-	-	-	540
	600	10,366	956	203	12,125

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

(a) Directors' emoluments *(continued)*

2009

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

No directors waived any emoluments during the year ended 31 December 2010 (2009: Nil).

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2009: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual during the year are as follows:

	2010 **HK$'000**	2009 *HK$'000*
Salaries, bonus and allowances	**825**	780
Pension	**12**	12
	837	792

The emoluments fell within the following bands:

	2010	2009
Emoluments bands		
Less than HK$ 1,000,000	**1**	1

(c) During the year ended 31 December 2010, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

32. EARNINGS PER SHARE – GROUP

(a) Basic

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

	2010 **HK$'000**	2009 *HK$'000*
Profit attributable to equity holders of the Company	**260,592**	216,095
Weighted average number of ordinary shares in issue (thousands)	**2,312,006**	2,032,713
Basic earnings per share (HK$ per share)	**0.113**	0.106

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

(b) Diluted

Diluted earnings per share is calculated after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Since the Company has no category of dilutive potential ordinary shares at 31 December 2010, the diluted earnings per share is the same as basic earnings per share. At 31 December 2009, the Company has outstanding share options that will dilute the potential ordinary shares. For the outstanding share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares in the relevant periods) based on the market values of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010 ***HK$'000***	2009 *HK$'000*
Profit used to determine diluted earnings per share	**260,592**	216,095
Weighted average number of ordinary shares in issue (thousands)	**2,312,006**	2,032,713
Adjustment for share options (thousands)	**–**	19,732
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,312,006**	2,052,445
Diluted earnings per share (HK$ per share)	**0.113**	0.105

33. DIVIDENDS

	2010 ***HK$'000***	2009 *HK$'000*
Interim dividend of HK$0.02 (2009: HK$0.02) per ordinary share	**47,098**	40,540
Proposed final dividend of HK$0.02 (2009: HK$0.02) per ordinary share	**48,977**	47,098
	96,075	87,638

The proposed final dividend in respect of the year ended 31 December 2010 of HK$0.02 (for the year ended 31 December 2009: HK$0.02) per ordinary share, amounting to a total dividend of HK$48,977,000 calculated based on the 2,448,864,000 ordinary shares excluding the subsequent share cancellation (2009: 2,354,904,000 ordinary shares after issuance of placing share) is subject to the approval of the forthcoming Annual General Meeting of the Company. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2011.

34. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of cash generated from operations

	2010 HK$'000	2009 HK$'000
Profit before income tax	**305,681**	240,997
Reversal of impairment of receivables	**(1,331)**	(5,479)
Write-down of/(Reversal of) inventories to their net realisable value	**708**	(7,311)
Provision for impairment of property, plant and equipment	**2,169**	1,194
Depreciation of property, plant and equipment	**80,072**	72,556
Gain on disposal of property, plant and equipment	**(1,063)**	(361)
Gain on disposal of land use rights	**(190)**	–
Amortisation of land use rights	**5,399**	5,259
Amortisation of intangible assets	**18,105**	17,628
Gain on disposal of financial assets at fair value through profit	**(1,321)**	(5,199)
Gain on redemption of convertible bonds	**–**	(9,043)
Interest income	**(4,540)**	(1,331)
Interest expenses	**23,852**	41,114
Operating profit before working capital changes	**427,541**	350,024
Changes in working capital:		
(Increase)/decrease in inventories	**(60,929)**	4,081
Increase in trade and bills receivables	**(59,835)**	(76,400)
Increase in prepayments, deposits and other receivables	**(103,757)**	(23,793)
Increase in trade and bills payables	**56,402**	22,965
Increase in advance receipts from customers	**6,537**	65
Increase in accruals and other payables	**94,644**	5,466
Net cash inflow generated from operations	**360,603**	282,408

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

	2010 HK$'000	2009 HK$'000
Net book amount disposed *(Note 7)*	**5,688**	15,502
Gain on disposal of property, plant and equipment	**1,063**	361
Proceeds from disposals of property, plant and equipment, net of transaction costs	**6,751**	15,863

34. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Major non-cash transactions

For the year ended 31 December 2010, the Group endorsed bank acceptance notes to its suppliers for purchase of property, plant and equipment amounting to approximately HK$74 million (31 December 2009: HK$90 million).

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP

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

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

Name	Relationship
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 26.1% interest in the Company as at 31 December 2010
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	An entity significantly influenced by certain key management personnel of the Group

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

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

Nature of transactions	Name of related party	2010 HK$'000	2009 HK$'000
Purchasing of raw materials and packaging materials from	Rejoy Packaging	–	2,601
Sales of finished goods to	Rejoy Medicine	13,935	1,790
Provision of utilities from	Xi'an Pharmacy Factory	47,347	41,166
Payment of administrative costs to	Xi'an Pharmacy Factory	3,453	3,405
Lease of office premises to	Rejoy Group	231	227
	Rejoy Packaging	69	68
		300	295

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

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

	2010 HK$'000	2009 HK$'000
Amounts due from related parties, included in trade receivables – Rejoy Medicine	6,636	2,486

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

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

	2010	2009
	HK$'000	*HK$'000*
Amounts due from related parties, included in other receivables		
– Xi'an Pharmacy Factory	**11,418**	7,842
– Rejoy Packaging	**12**	–
– Rejoy Group	**–**	114
	11,430	7,956

	2010	2009
	HK$'000	*HK$'000*
Amounts due to related parties, included in trade payables		
– Rejoy Packaging	**–**	357

The related party balances are unsecured, interest-free and have no pre-determined terms of repayment.

(d) **Key management compensation**

	2010	2009
	HK$'000	*HK$'000*
Salaries, bonus and allowances	**12,747**	11,186
Pension	**215**	213
	12,962	11,399

36. COMMITMENTS – GROUP

(a) Capital commitments

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

	2010	2009
	HK$'000	*HK$'000*
– Plant and machineries	**49,055**	6,262

(b) Operating lease commitments

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

	2010	2009
	HK$'000	*HK$'000*
Not later than one year	**494**	2,533
Later than one year and not later than five years	**1,454**	1,405
More than five years	**7,385**	7,488
	9,333	11,426

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2006 *HK$'000* (Audited)	2007 *HK$'000* (Audited)	2008 *HK$'000* (Audited)	2009 *HK$'000* (Audited)	**2010** ***HK$'000*** **(Audited)**
RESULTS					
Turnover	841,715	1,139,431	1,591,028	1,739,628	**1,971,657**
Profit before income tax	90,369	132,002	93,282	240,997	**305,681**
Income tax expense	(945)	(12,442)	8,914	(24,803)	**(44,992)**
Profit for the year	91,314	119,560	102,196	216,194	**260,689**
Attribute to:					
Equity holders of the Company	82,715	119,530	102,106	216,095	**260,592**
Minority interest	8,599	30	90	99	**97**

	As at 31 December				
	2006 *HK$'000* (Audited)	2007 *HK$'000* (Audited)	2008 *HK$'000* (Audited)	2009 *HK$'000* (Audited)	**2010** ***HK$'000*** **(Audited)**
ASSETS AND LIABILITIES					
Total assets	910,655	2,072,843	2,511,447	2,500,259	**3,372,711**
Total liabilities	(410,673)	(876,747)	(1,141,658)	(874,439)	**(1,016,414)**
Minority interest	–	(800)	(945)	(1,044)	**(1,178)**
Shareholder's equity	499,982	1,195,296	1,368,844	1,624,776	**2,355,119**