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Sihuan Pharmaceutical Holdings Group Ltd.

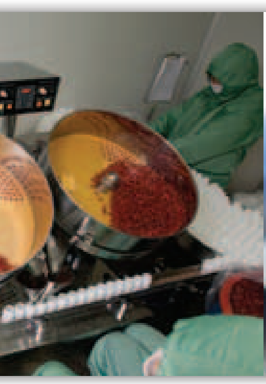
Annual Report 2010

(incorporated in Bermuda with limited liability) | Stock Code: 0460

About Sihuan Pharmaceutical Holdings Group Ltd.

Founded in 2001, Sihuan Pharmaceutical Holdings Group Ltd. is a leading pharmaceutical company and the largest cardio-cerebral vascular drug franchise in China by market share. The success of the Group can be attributed to its differentiated and proven sales and marketing model, diversified portfolio of market leading drugs, extensive nationwide distribution network and strong research and development capabilities. Our distribution network covers close to 10,000 hospitals through over 2,000 distributors in all 31 provinces, autonomous regions and cities throughout China. The Company currently sells 83 products in the top five medical therapeutic areas in China: cardiovascular system, anti-infective, metabolism, oncology and nervous system. Major products of the Company such as Kelinao, Anjieli, Chuanqing, Qu'Ao and Aogan are widely used in the treatment of various cardio-cerebral vascular diseases. Since 2007, the Company had commanded the largest share of the cardio-cerebral vascular market in China.

Contents



Corporate Information

BOARD OF DIRECTORS

Executive Directors
Dr. Che Fengsheng *(Chairman)*
Dr. Guo Weicheng *(Deputy Chairman)*
Mr. Meng Xianhui

Non-Executive Directors
Dr. Zhang Jionglong
Mr. Homer Sun
Mr. Eddy Huang

Independent Non-Executive Directors
Mr. Patrick Sun
Mr. Bai Huiliang
Mr. Xu Kangsen

JOINT COMPANY SECRETARIES

Ms. Ma Sau Kuen Gloria
Mr. Choi Yiau Chong

AUTHORISED REPRESENTATIVES

Mr. Eddy Huang
Ms. Ma Sau Kuen Gloria

AUDIT COMMITTEE

Mr. Patrick Sun *(Chairman)*
Mr. Bai Huiliang
Mr. Xu Kangsen
Dr. Zhang Jionglong

REMUNERATION COMMITTEE

Dr. Che Fengsheng *(Chairman)*
Mr. Patrick Sun
Mr. Bai Huiliang
Mr. Xu Kangsen

NOMINATION COMMITTEE

Dr. Guo Weicheng *(Chairman)*
Mr. Patrick Sun
Mr. Bai Huiliang
Mr. Xu Kangsen

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Central, Hong Kong

PRINCIPAL SHARE REGISTRAR

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1022 Hamilton HM DX, Bermuda

HONG KONG SHARE REGISTRAR

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183 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

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Industrial and Commercial Bank of China Limited
Bank of Communications

WEBSITE

www.sihuanpharm.com

STOCK CODE

0460

Corporate Profile

Sihuan Pharmaceutical Holdings Group Ltd. (stock code: 0460) (the "Company" or "Sihuan Pharmaceutical") (with its subsidiaries collectively referred to as the "Group") is a leading company engaged in the research and development ("R&D"), production, sales and marketing of pharmaceutical drugs in the People's Republic of China ("PRC" or "China"). In terms of market share, the Group has been the largest cardio-cerebral vascular drug franchise in China since 2007.

The Group currently sells 83 products covering the top five medical therapeutic areas in China: cardiovascular system, anti-infection, metabolism, oncology and nervous system. The Group's major products such as Kelinao, Anjieli, Chuanqing, Qu'Ao and Aogan are widely used in the treatment of various cardio-cerebral vascular diseases.

The Group has a differentiated and proven sales and marketing model which is supported by an extensive nationwide distribution network of over 2,000 distributors covering close to 10,000 hospitals and medical institutions throughout 31 provinces, cities and autonomous regions in China.

The Group has one of the largest pharmaceutical R&D teams in China, focusing on developing innovative drugs with market potential and making first-to-market generic drugs. Meanwhile, the Group employs strategies such as merger and acquisition, to enrich its market-leading product portfolio. The Group has a proven track record of identifying and acquiring drugs products with market potential and developing them into market-leading products.

The Group operates six integrated production lines, and adhering to stringent and closely monitored quality control processes. We intend to expand our production capacities and capabilities to meet the increasing demand for our products and to increase the in-house production of additional key active pharmaceutical ingredients ("APIs"), which are required to manufacture our products. We believe this will allow us to better control the quality and cost of our products. In addition, the Group actively engages in merger and acquisition activities that create synergy with our existing operations and help propel us to the next level of development. Since the Group's listing in 2010, we have identified suitable targets for acquisition and expect more opportunities in the future.

With regard to our listing, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2010. The success of the fund-raising will inject further vitality into the Group's plans for rapid expansion. Coupled with the healthy development of the Chinese economy and the country's healthcare reform measures, the Group will actively expand its sales and distribution networks, further strengthen R&D capabilities and production capacity, and continuously enrich its product lines, in order to take full advantage of the opportunities brought forth by the rapid growth of demand for pharmaceutical products.

Milestones

2001

- Hainan Sihuan was founded.

2002

- Developed a differentiated model of sales and distribution.

2003

- Kelinao was launched.
- Acquired a 28% interest in Beijing Sihuan and expanded our business to product manufacturing.
- Chuanqing was launched.

2004

- Received a 20-year patent protection in the PRC for the synthesis process in the PRC used in the production of Kelinao and Anjieli.

2005

- Hainan Sihuan was granted the "High and New Technology Enterprise" status.

2006

- Kelinao was granted "State Torch Programme" status by the Science and Technology Ministry of the PRC.
- Acquired the remaining interest in Beijing Sihuan which then became a wholly-owned subsidiary of the Group.
- Received a 20-year patent protection in the PRC for the improved method for producing of Kelinao and Anjieli.

2007

- Sihuan Pharmaceutical was listed on the main board of the SGX-ST on 23 March 2007.
- The Group has commanded the largest share of the cardio-cerebral vascular market in China.
- Acquired a 100% interest in Shenzhen Sihuan.
- Hainan Sihuan CVD Research became a wholly-owned subsidiary of the Group.

2008

- Acquired a 60% interest in KBP BioSciences which enables the Group to engage in the research and development of innovative drugs.
- Aogan was launched.
- Received a 20-year patent protection in the PRC for the invention and production method of non-solvated cinepazide maleate crystal for producing Kelinao and Anjieli.
- Beijing Sihuan was granted the "High and New Technology Enterprise" status while Hainan Sihuan successfully had its "High and New Technology Enterprise" status renewed. Both companies are entitled to preferential tax rate of 15% for three years as a result of the status.

2009

- Qingtong was launched.
- MSPEA III Cayman's invested and subsequently privatised the Company, which then was delisted from the SGX-ST.
- Established a joint venture with Beijing Gaobo in Langfang which engages in the production of raw materials (including API) for pharmaceutical products.

2010

- Sihuan Pharmaceutical was ranked No. 4 in the Forbes 2010 list of the most promising enterprises in the PRC (2010 福布斯中國潛力企業榜) and No. 1 among pharmaceutical companies.
- Acquired a 60% interest in Gao Duan Wei Ye which opens up the export market for our products and enables us to import products into the PRC market from overseas.
- Completed the construction of a pharmaceutical raw material plant, Langfang Sihuan Gao Bo Pharmaceutical Co., Ltd..
- Obtained a 30-year exclusive distribution rights to "Yimaining (益脈寧)" (Alprostadil lipid emulsion injection).

Financial Summary

RMB'000	2007	2008	2009	**2010**
Operating results				
Revenue	286,349	510,048	708,907	**1,036,881**
Gross profit	225,823	376,497	516,992	**744,743**
Operating profit	186,979	276,172	373,025	**613,313**
Profit before income tax	184,452	287,069	381,026	**635,083**
Profit and total comprehensive income for the year attributable to equity owners of the Company	179,266	237,059	326,316	**522,065**
Profitability				
Gross margin	78.9%	73.8%	72.9%	**71.8%**
Operating margin	65.3%	54.1%	52.6%	**59.1%**
Net profit margin	62.6%	46.5%	46.0%	**50.3%**
Earning per share				
Basic and diluted (RMB cents)	4.81	6.32	8.70	**13.03**
Asset status				
Total assets	630,546	862,051	1,173,442	**6,902,452**
Equity attributable to equity owners of the Company	524,813	701,216	907,503	**6,656,931**
Total liabilities	105,733	146,191	249,255	**242,923**
Cash and cash equivalents	262,380	331,178	612,859	**5,851,379**
Quick ratio (times)	3	3	3	**26**
Current ratio (times)	3	4	4	**26**
Inventory turnover ratio (days)	90	84	77	**59**
Trade receivables turnover ratio (days)	7	2	2	**2**
Trade payables turnover ratio (days)	33	18	16	**27**

Chairman's Statement

To shareholders,

On behalf of the board of directors of Sihuan Pharmaceutical Holdings Group Ltd., I am pleased to present the annual report of the Group for the year ended 31 December 2010.


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R&D capability Nation wide and
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company is mainly focused in
in R&D, manufacturing and marketing
Group. In the early day

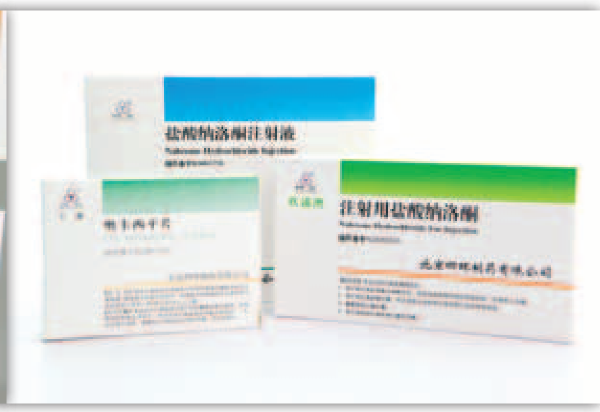
2010 was a year of breakthrough achievements for Sihuan Pharmaceutical. During this year, we further consolidated our position as the largest cardio-cerebral vascular drug (CCV) franchise in China as we continued to maintain a rapid pace of growth and expand our market share to 7.5%. Sales grew 46.3% year-on-year to RMB1,036.9 million in 2010 while profit attributable to equity owners grew 60.0% to RMB522.1 million from the previous year. In the same period, we further expanded our product portfolio, which now covers a wide spectrum of therapeutic areas that benefit from strong growth potential. We also continued to leverage our differentiated and proven sales and marketing model, and expand our nationwide distribution network across China. As we look ahead we believe that Sihuan Pharmaceutical will continue to strengthen its competitive advantages and is well positioned to benefit from China's rapidly growing pharmaceutical market, which is on its course to become the world's third-largest market in 2011.

In an effort to improve access to basic healthcare services, and achieve universal medical insurance coverage, the Chinese government has raised the investment to RMB1,134.2 billion from RMB850 billion for the reform of the healthcare system, which in our view could benefit the pharmaceutical industry in China. Further, in February 2011, the SFDA promulgated new GMP guidelines which have greatly enhanced quality control, documentation, and the overall manufacturing of pharmaceutical products. These measures are expected to spur a new wave of consolidation in the industry as the smaller pharmaceutical companies lacking resources to comply with these guidelines independently seeks stronger partners. Pharmaceutical companies that have strong product portfolios, nationwide marketing and sales capabilities and deep financial resources such as Sihuan Pharmaceutical are well-positioned to expand under such industry developments.

Sihuan Pharmaceutical has already started to reap the rewards of its continuous efforts to diversify its product portfolio. Our CCV products continued to be the largest contributor to revenue, growing 49.4% year-on-year to RMB837.6 million. The key drugs of this product category, namely Kelinao, Anjieli, Chuanqing and Qu'Ao, achieved stable growth while revenue from the new products, Aogan and Qingtong, soared 180% year-on-year. Elsewhere, revenue from anti-infective drugs such as Anjiejian, Luoanming and Pojia jumped 55.6% year-on-year on strong sales driven partly by our increased marketing efforts and market penetration strategies. During the year, we have continued to expand our distribution network which has grown to more than 2,500 distributors. As a result of this expansion, we were able to sell our products to an additional 2,000 hospitals and penetrated into additional hospital departments.

During the year, we continued to invest in R&D to ensure a strong and competitive product pipeline as we move our business forward. Four innovative products had completed pre-clinical studies and had applied for clinical trial with SFDA. As at the end of 2010, the Company had applied patents for over 300 products, 9 of which were under PCT (an international patent) and 188 of those were granted. Meanwhile, we were able to accelerate our progress on the front of generic drugs development. One generic drug product has already been approved for production while another three products have undergone the necessary research process and are now awaiting approval for production and for launch on to the market.

We have a proven capability in identifying, acquiring and developing market-leading products. During 2010, we continued to build upon this strength by acquiring a number of cardio-cerebral vascular products that offer high growth potential. In November 2010, we acquired from Benxi Leilong Pharmaceutical the 30-year exclusive



distribution rights for Yimaining (Alprostadil lipid emulsion injection), one of the best-selling CCV drugs in China. In December 2010, we acquired Dupromise Holdings Limited, which owns 18 CCV products, including three proprietary patented products. In January 2011, we purchased Changchun Xiangtong Pharmaceutical Co., Ltd. which produces the raw medicine and the injection of monosialotetrahexosylganglioside, which is one of the best-selling prescription drugs in the CCV field in China.

Through these acquisitions and our continued focus on R&D, Sihuan Pharmaceutical currently sells a total of 83 products that cover all of China's top five medical therapeutic markets. The number of CCV drug products increased from 14 to 33, including 4 proprietary patented products.

Fueled by increasing demand for quality drugs and driven by urbanization and an ageing population, the pharmaceutical industry will continue to be one of China's fastest-growing industries. Looking forward, in order to seize opportunities in the rapidly expanding pharmaceutical market, we will seek to further improve our product mix and continue to roll out effective market expansion strategies to strengthen our competitive edge and market leading position.

In the coming years, we intend to step up the development of products that show significant market potential by leveraging on the resources and brand recognition of Sihuan Pharmaceutical in the CCV field. Furthermore, we will increase our focus on markets where the Provincial Medicine Catalogues have yet to include our products by targeting hospitals for collaboration and departments that are yet to use our products. In addition, we will continue to look for acquisition opportunities, focusing on companies whose businesses are complementary to Sihuan Pharmaceutical's. We will also invest further in building our marketing capabilities to support the expansion of our portfolio and our distribution network. We intend to expand our internal sales and marketing team to over 450 people and take additional steps to provide better training for both staff and distributors. Meanwhile, investing in R&D will continue to be our priority so that we can further enhance our capabilities in key areas and expand clinical development.

2010 was a year of great significance for Sihuan Pharmaceutical and was marked by numerous major business achievements. In the interest of laying a new foundation for its continued success against a backdrop of increasing consolidation in China's pharmaceutical market, Sihuan Pharmaceutical was successfully listed on the main board of the Hong Kong Stock Exchange on 28 October, which has enabled the Group to more effectively tap the international financial markets for capital and such a move has established a solid foundation for our future development. With our strengthened position, we are confident that we will continue our rapid pace of growth and create even greater returns for our shareholders in the coming year.

Che Fengsheng
Chairman and Chief Executive Officer

16 March 2011

Management Discussion and Analysis

(The figures stated in the report have not been audited)

I. BUSINESS REVIEW

1. Income and profit

In 2010, Sihuan Pharmaceutical continued to maintain its market competitiveness and achieved continued rapid growth for the tenth consecutive year since its establishment. It recorded satisfactory results, with sales revenue increasing by 46.3% to RMB1,036.9 million and net profit rising by 61.6% to RMB506.9 million on a year-on-year basis. The Group not only controlled all costs and expenses diligently, but also fully demonstrated its solid foundation and strong capability for growing the overall business.

Product category	2009 RMB'000	**2010 RMB'000**	**Year-on-year growth**
Cardio-cerebral vascular	560,620.6	**837,560.6**	49.4%
Anti-infective	55,515.6	**86,396.4**	55.6%
Others	84,820.3	**110,774.0**	30.6%

2. Cardio-cerebral vascular products

The sales revenue from cardio-cerebral vascular ("CCV") products accounted for 80.8% of the total revenue. In this segment, Kelinao maintained a sustainable growth of 37.9%. Meanwhile, revenue from Aogan and Qingtong recorded nearly doubled. Both Anjieli and Qu'Ao had a growth of over 50.0%, while Chuanqing saw a rise of more than 30.0%. As IMS data illustrated, we continued to maintain leading position in CCV prescription drug market in China, with the largest market share reaching 7.5% in 2010.

Cardio-cerebral vascular products	2009 RMB'000	**2010 RMB'000**	**Year-on-year growth**
Kelinao	330,863.8	**456,102.5**	37.9%
Anjieli	75,251.9	**113,877.8**	51.3%
Chuanqing	63,080.4	**82,916.6**	31.5%
Aogan	22,836.5	**66,169.6**	189.8%
Qu'Ao	37,176.0	**59,059.4**	58.9%
Qingtong	12,383.0	**35,785.6**	189.0%

3. Non-cardio-cerebral vascular products

Our anti-infective drugs also performed well in 2010, with revenue increased by over 55.0% year-on-year. In this segment, revenue from Anjiejian (cefmenoxime hydrochloride) grew considerably by 87.5%, and it became the core product of its kind. In addition, our other products reported an average year-on-year growth of over 30.0%.

Non-cardio-cerebral vascular products	2009 RMB'000	**2010 RMB'000**	Year-on-year growth
Anjiejian	16,130.4	**30,242.6**	87.5%
Zhou'Ao	2,870.4	**4,957.2**	72.7%
Bi'Ao	33,642.4	**38,595.2**	14.7%

4. Marketing

Further development of the sales team and distribution network. Alongside the diversification of the product mix, the Group continued to expand its sales team and the distribution network in 2010 by hiring more than 30 additional marketing staff in 5 offices to manage the expanded distribution network of over 2,500 distributors. Rigorous training was provided for our sales team in order to upgrade their selling and marketing capabilities. As a result, more than 2,000 new hospitals, as well as more departments within existing hospitals, procured our products for the first time.

The Group always closely follows the development of the central tendering process and analyzes the competitive advantages of each of our products. As the Company has a board range of products, we developed, together with a reputable software developer, an online tendering management system so as to increase the efficiency of the tendering process management and analysis. Through these initiatives, the Company's major products achieved a rate of successful tendering beyond 80%, all while generally maintaining overall price stability.

More academic promotion activities. In 2010, the Company held a total of 7 national academic conferences, 28 academic conferences at the provincial and municipal levels, and nearly 1,000 small-scale academic activities to establish good relationships with all professional bodies. The activities were well received by leaders in the general opinion of the market, thereby boosting the market influence and position of our brand "Sihuan".

5. Research and development

Our well-formulated and highly effective R&D system delivered good results as well. Levophencynonate hydrochloride passed through the first phase of clinical trials. In addition, pre-clinical trials for four patented innovative drugs were completed and filed with the SFDA of the PRC for conducting clinical trials. These four projects are Benapenem, Anaprazole, Pinoxacin Hydrochloride and Imigliptin

Hydrochloride. As of 2010, we had applied for patents for over 300 items. Of these, 9 were applied under PCT (an international patent) and 188 were granted patents. Meanwhile, 1 generic drug product was granted approval for production and 3 others were awaiting such approval.

Details of our research and development spending are summarised below:

	For the year ended 31 December			
	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Revenue	286,349	510,048	708,907	**1,036,881**
Research and Development Spending	65,000	36,370	48,203	**94,642**
As % of Revenue	22.7%	7.1%	6.8%	**9.1%**
Breakdown of Research and Development Spending:				
Research and Development Expenses	4,394	8,435	13,697	**17,960**
Administrative Expenses by our R&D Subsidiaries	2,355	5,851	15,617	**21,131**
Capital Expenditures:				
Purchase of Research and Development Projects	55,927	14,369	7,264	**34,438**
Purchase of Research and Development Equipment	2,324	4,344	5,666	**17,300**
Other Capitalised Expenditures	—	3,371	5,959	**3,813**

6. Expansion of production capacity

In 2010, the construction of the Group's raw material plant, Langfang Sihuan Gao Bo Pharmaceutical Co., Ltd., was completed. The construction standard, especially with regard to the plant's environmental protection system, is of the highest in China. The new raw material plant can satisfy the overall raw material demand of existing and future products of the Group. Moreover, we plan to export raw medicine and active pharmaceutical ingredients ("APIs") to overseas, an operation that we expect to become our next growth engine.

The construction of Beijing Sihuan Pharmaceutical Co., Ltd.'s new plant is in the design and planning stages. Phase I construction is expected to complete in 2012. Upon completion, our production facilities will be upgraded to international standards and will also fulfill the requirements of PRC's new GMP.

7. The listing of the Group in Hong Kong

In light of the prevailing trend of consolidation of the PRC pharmaceutical market, the Group decided to list in Hong Kong to obtain better resources for business operation and an opportunity for significant advancement. We duly commenced listing-related work in early May, and successfully listed the Company in Hong Kong on 28 October, in a period of just about five months. The Group became one of China's most influential pharmaceutical enterprises. Our listing attracted keen interest from many reputable international investment institutions and investors, which in turn inspired us to capture the opportunities arising from the consolidation in China's pharmaceutical market and to enter the international market.

8. Mergers and Acquisitions

A. Merger and acquisitions projects:

After the listing, the Group initiated a series of mergers and acquisitions.

First, the Group obtained 30-year distribution rights for the Alprostadil lipid emulsion injection from Benxi Leilong Pharmaceutical Co., Ltd ("Benxi Leilong"). This product ranks the top in the PRC cardio vascular drug market. In 2010, its market size reached approximately RMB1,470 million (Source: IMS). It is currently the first line treatment drug for cardio vascular diseases in hospitals and thus offers great market potential. The introduction of this product into the Group's product portfolio will enhance the Group's leading position in the cardio-cerebral vascular segment.

Subsequently, the Group acquired Dupromise Holdings Limited ("Dupromise"), which owns a variety of valuable products. In its 38 products, there are three proprietary products and various products with proprietary dosages or proprietary formulations, principally covering severe disease areas such as cardio-cerebral vascular diseases. In particular, Oudimei, Yuanzhijiu and Yeduojia are proprietary patented products for the treatment of cerebral vascular and cardio vascular diseases. These products' excellent efficacy and safety profile have been highly recognized by clinical doctors. Driven by the strong marketing and selling capability of the Group, the three proprietary products mentioned will soon be the Group's next flagship products following Kelinao. The Company's acquisition of Dupromise will greatly enrich our product portfolio, in particular, the product portfolio for the cardio-cerebral vascular segment.

B. Consolidation after merger and acquisition

With the support from the Group, Benxi Leilong optimized its production process to meet the market demand of the Alprostadil lipid emulsion injection. Meanwhile, we enhanced production quality control to further assure its consistent quality. Currently, we have won tenders for the product in 20 provinces, cities, autonomous regions and military regions in the PRC.

Dupromise was successfully integrated into the Group. The original production management, technical and marketing teams have remained in their existing roles, while the production line and business are operating well. The original marketing team is working closely with the Group's management for market development, drawing on the synergy that has sped up our expansion efforts as a whole.

The original management team of Changchun Xiangtong Pharmaceutical Co., Ltd., whose entire corporate operation was successfully incorporated into the Group's management system, remained in their existing roles. Meanwhile, under the relevant regulations, Beijing Sihuan Pharmaceutical Co., Ltd., has applied to change raw medicine suppliers for the production of Aogan. It is expected that approval for this will be granted in the second half of 2011, enabling intra-Group raw material medicine supply to be realized and the margin of Aogan to be improved.

II. INDUSTRY OVERVIEW

Industry Operation Overview

In 2010, as the pace of the reform of the medical and healthcare system moved forward incessantly, the pharmaceutical industry saw steady growth in the future.

From January to November, the pharmaceutical industry achieved total output value of RMB1,123,900 million, representing a year-on-year growth of 26.4%. It is estimated that the total annual output value in the pharmaceutical industry was approximately RMB1,250,000 million for the year, representing a year-on-year growth of about 27.0%.

From January to November, the pharmaceutical industry achieved a total profit of RMB111,400 million representing a year-on-year growth of 28.3%. Sales margin increased by 0.2 percentage point year-on-year to 10.4%. On a sub-sector basis, profit contribution came mainly from the production of chemical drugs, raw medicine, Chinese medicine, biological products and biochemistry products. It is estimated that the annual profit of the industry was approximately RMB125,000 million for the year, maintaining a growth of about 28.5%. (Source: ANBOUND pharmaceutical industry data)

Drugs for Treating Major Diseases

CCV diseases, cancers and diabetes-related diseases, remained the major high-mortality diseases that severely endanger the health of our citizens. With medical insurance coverage expanding in 2010, the hospital attendance rate increased significantly. There were huge demands for medical services and drugs for treating these major diseases, driving the rapid growth of the drug market for these major diseases. The total market size for cardio-cerebral vascular drugs reached RMB33,800 million, representing a year-on-year growth of 26.0% (Source: IMS).

Overview of drugs for treating other major diseases in 2010:

Therapeutic areas covered by the Group		**Sales** RMB million	**y-o-y Growth in 2010**
Systemic anti-infective drugs	J	81,412.0	17.0%
Alimentary tract and metabolism drugs	A	40,871.0	24.0%
Cardio-cerebral vascular drugs	CCV	33,790.8	26.0%
Antineoplastic and immunomodulating agents	L	28,833.0	22.0%
Central nervous system drugs	N	22,564.0	25.0%
Respiratory system drugs	R	8,060.0	29.0%

Source: IMS

Changes in National Policy

The Central People's Government of the PRC published Guo Ban Fa [2011] No. 8 "Major Work Arrangements for the Five Focuses of Healthcare System Reform in 2011" (《醫藥衛生體制五項重點改革2011年度主要工作安排》) on its website on 17 February 2011. Under the policy the government will step up healthcare coverage for citizens in 2011. The medical insurance allowance for residents eligible for New Rural Cooperative Medical Services and residents in urban areas will be increased from RMB120 to RMB200 for each person per year. The proportion of the population covered by basic medical insurance is also expected to surpass 90% in 2011.

The implementation of the above mentioned policy will undoubtedly drive the continued expansion and sustained growth of the pharmaceutical market. Meanwhile, given the urbanization and ageing Chinese population in China coupled with the increasing vibrant pace if life and public pressure for better environment, it is anticipated that in 2011 and during the "12th Five-Year Plan" period, the pharmaceutical market will maintain a growth rate of 21.9% (Source: IMS) to make China the fastest growing pharmaceutical market in the world.

Furthermore, the entry barrier for the pharmaceutical industry is also rising. New GMP standard issued by China's SFDA took effect on 1 March 2011. At the same time, the standards for newly developed drugs have been increased repeatedly. These factors will accelerate consolidation in the industry and continue to drive further integration in the future.

(The figures stated in the report have not been audited)

III. FUTURE PROSPECTS

1. Industry development trend

From a broader market perspective in the PRC, the pharmaceutical industry will continue to be one of the country's fastest-growing industries. The continuous growth of the pharmaceutical industry is underpinned by two factors: the solidity of demands, as well as the rapid increase in demands. As the healthcare reform gains momentum and the government gradually achieves each of the targets stated in the "Major Work Arrangements for the Five Focuses of Healthcare System Reform in 2011", the entire pharmaceutical market will be provided with further expansion opportunities. In addition, acceleration in urbanization and China's ageing population will continue to drive the growth of the pharmaceutical industry. In 2011 and during the "12th Five-Year Plan" period, there is little doubt that the pharmaceutical industry will experience rapid growth.

2. Outlook of the Group's Development

The management believes that the Group's operations will continue to see rapid growth in 2011, which is attributable to the market expansion of existing products, the continuous launch of products with high market potential and our improving operating efficiency. It is expected that the products introduced through acquisitions, such as Oudimei, Yuanzhijiu, and Yimaining, will achieve breakthrough in sales, while existing products will maintain their growth momentum. Furthermore, newly developed products will gradually obtain the approvals for market launch. In short, the Group's overall operation is set to be on a path of continuous growth and at a rate that outstrips industry average.

At the end of 2010, the number of hospital covered by our core products, Kelinao and Anjieli, was less than 3,500, whereas there were at least 7,000 to 8,000 hospitals for further development potential. Moreover, as Kelinao and Anjieli are now listed in the national medicine catalogue, regions like Shanghai, Jiangsu, and Sichuan, and Guangxi, will soon become key markets for future growths. As a result, there is still considerable room for market development of both Kelinao and Anjieli.

In 2010, Aogan and Qingtong achieved rapid growths. We are confident that this speedy growth will continue, in particular, after we resolve API supply constraints this year. Our superior marketing capabilities and high morbidity rate of cerebral vascular diseases will also spark further growth.

Qu'ao and Chuanqing offer excellent quality when compared to similar products of other manufacturers, and so are more heavily endorsed by clinicians. In 2010, despite the satisfactory sales performance of these product, most of the sales came from few provinces and cities, indicating a large shortfall in market coverage. In addition, both drugs enjoy proven efficacy and a strong safety profile after years of clinical application. Being well received among doctors and patients, the sales of Qu'ao and Chuanqing will continue to enjoy enormous growth potential.

Our products with the greatest growth potential in future are those that have become part of the product mix as a result of acquisitions, such as Oudimei, Yuanzhijiu, Yeduojia and Yimaining. Oudimei, Yuanzhijiu and Yeduojia were listed in few provincial medical insurance catalogues in 2009. As at the end of 2010, however, they were listed in 20, 16 and 14 provincial medicine catalogues respectively. Nevertheless, we expect that these respective products will soon be introduced to even more provinces.

Alprostadil injection is the top selling cardio vascular drug in China. Of this type of injection, Alprostadil lipid emulsion injection is the most popular formulation, Benxi Leilong is one of the few producers in China of this particular formulation. Supported by the Group's marketing network, we believe that Yimaining will achieve outstanding growth this year.

IV. GROWTH STRATEGIES

1. Establishment of product tiers

Enjoying a superior product portfolio is key to the growth of our operations. The products introduced through acquisitions in 2010, such as Yimaining, Oudimei, Yuanzhijiu and Yeduojia, show highly promising market prospects. These products are expected to achieve significant market growth in 2011, enough to become our first-tier growth driver. Our existing products are also expected to maintain their excellent growth. Among them, Aogan and Qingtong will continue to grow strongly and are classified as second-tier growth driver in sales. Anjieli, Kelinao and Chuanqing, which are expected to keep their levels of growth at a level above the average for their respective subsectors, form our third-tier growth driver as well as a fundamental support for our growth. Anti-infective and other drugs, which are expected to maintain the growth rates experienced in 2010, constitute our last growth driver. In addition, as our newly developed products obtain approvals for market launch, they will also contribute to our growth.

The followings table summarize the product drivers of Company products:

Oudimei, Yuanzhijiu, Yeduojia, Yimaining	The first driver
Aogan, Qingtong	The second driver
Anjieli, Kelinao, Qu'Ao and Chuanqing	The third driver
Anti-infective and other drugs	The fourth driver

2. Market expansion strategies

1 In 2011, the Company will scale up market investments, expand the marketing team and the market distribution network. The number of product managers will increase to over 50 and sales managers will increase to above 400 people.

2 The Company will step up efforts in marketing and promotion, as well as investment in market research, including various kinds of seminars, special topic studies and media promotion events, in order to enhance our brand influence of our products.

3 Better professional training will be provided to our internal sales team and the sales representatives of our pharmaceutical distributors in order to enhance their product knowledge and professionalism.

(The figures stated in the report have not been audited)

4. The Group will leverage our strong marketing power and brand influence to promote Oudimei, Yuanzhijiu and Yeduojia in the cardio-cerebral vascular drug market. We will also make use of promoting within academic circles, such as presenting case study findings at departmental briefings, to boost the sales of these products.

5 Kelinao and Anjieli will be promoted to geographical regions that have yet to be covered by medical insurance schemes, such as Shanghai. At the same time, we will continue to promote them to hospitals that offer use sales potential in covered geographical regions. As for hospitals that are already using our drugs, extensive promotional campaigns and other marketing efforts will be emphasised to further boost sales.

6 We will invest further in the infrastructure for information technology to enhance productivity and efficiency.

3. Cost control

The Group will implement stringent budget management by strengthening costs control and enforcing stricter audits. Although marketing and R&D expenses will increase, the economies of scale enjoyed as a result of our expansion will continue to keep overall expense within a manageable level.

4. Mergers and acquisitions

Building on our successful acquisitions in 2010, we will continue to engage in such activities in order to explore new operational growth drivers. Key emphases will be placed on identifying products that complement the Group's product portfolio.

5. Human resources management

Human resources are an indispensable asset to the success of the Group in a competitive environment. The Group provides competitive remuneration package to all employees. We also review our own human resources and remuneration policy regularly, so that we can best encourage all employees to work towards enhancing the value and promoting the long-term growth of the Company.

As at 31 December 2010, the Group had 1,030 employees. For the year ended 31 December 2010, the Group's total salary and related costs were RMB65.3 million (2009: RMB37.4 million).

V. FINANCIAL DATA AND ANALYSIS

Revenue

In 2010, the Group continued to strengthen the cardio-cerebral vascular drug franchise and increased the sales of drugs in other high-growth therapeutic areas. Our total revenue increased by 46.3% from RMB708.9 million in 2009 to RMB1,036.9 million in 2010. The increase in revenue was mainly attributable to the growth of sales of our cardio-cerebral vascular drugs, anti-infective drugs and other drugs.

The revenue of our cardio-cerebral vascular drugs amounted to approximately RMB837.6 million in 2010, representing a growth of approximately 49.4% over 2009 and accounting for approximately 80.8% of the Group's total revenue. The increase was primarily due to the following (i) our increased market penetration through the establishment of new regional sales offices, including offices in Qingdao and Chongqing; and (ii) our increased marketing activities such as the organization and sponsoring of seminars and conferences to promote the awareness and knowledge of our products. Revenue from the sales of our cardio-cerebral vascular drugs was largely attributable to sales of Kelinao, which increased by 37.9% from RMB330.9 million in 2009 to RMB456.1 million in 2010, and Anjieli, which increased by 51.3% from RMB75.3 million in 2009 to RMB113.9 million in 2010. In 2010, disruptions in supplies from our subcontracted manufacturers temporarily limited our ability to fulfill our distributors' orders for certain products, such as Chuanqing and Qu'Ao). Nevertheless, revenue from our sales of Chuanqing increased by 31.5% from RMB63.1 million in 2009 to RMB82.9 million in 2010, while revenue from our sales of Qu'Ao were increased by 58.9% from RMB37.2 million in 2009 to RMB59.1 million in 2010. These revenue increases were also due to our increased marketing activities and market penetration. In addition, the revenue from our newly launched products, Aogan and Qingtong, increased by 189.8% and 189.0%, respectively year-on-year contributing approximately 9.8% to our total revenue in 2010 as compared to 5.0% in 2009.

Revenue from our anti-infective drugs grew approximately 55.6% to RMB86.4 million in 2010 from RMB55.5 million in 2009, accounting for approximately 8.3% of the Group's total revenue. Revenue from our other drugs increased by approximately 30.6% to RMB110.8 million, accounting for approximately 10.7% of the Group's total turnover. The increase in revenue from our sales of anti-infective and other drugs was primarily due to an increase in revenue from sales of Anjiejian by 87.5% from RMB16.1 million in 2009 to RMB30.2 million in 2010 and an increase in revenue from sales of Luoanming (Compound Amino Acid Injection 18AA) by 150.0% from RMB8.8 million in 2009 to RMB22.0 million in 2010. These increases were primarily due to our increased marketing efforts and market penetration. In addition, the revenue from sales of Pojia (Sulbenicillin Sodium for Injection), a new product introduced in 2010, reached RMB19.7 million, accounting for almost 1.9% of our total revenue in 2010.

Cost of sales

Cost of sales increased by 52.2% from RMB191.9 million in 2009 to RMB292.1 million in 2010, outpacing the increase in our revenue for the same period. This increase was due to the higher sales of anti-infective and other drugs, which are manufactured by our subcontracted manufacturers. The increase in sales of products manufactured by subcontracted manufacturers resulted in an increased proportion of products in our product mix having a higher average cost of sales as compared to products manufactured in our own production facilities.

Gross profit

Our gross profit increased by 44.1% from RMB517.0 million in 2009 to RMB744.7 million in 2010. Our overall gross profit margin decreased slightly from 72.9% in 2009 to 71.8% in 2010, largely due to an increased proportion in our product mix of lower margin products such as our newly launched products, which have a lower average gross profit margin as compared to our existing products. Our gross profit margin was also affected by an increased proportion in our product mix of drugs manufactured by our subcontracted manufacturers, which average higher cost of sales compared to products manufactured in our own production facilities.

(The figures stated in the report have not been audited)

Other gains/(losses) — net

Other gains/(losses) — net increased from a loss of RMB16.3 million in 2009 to a gain of RMB54.1 million in 2010. This was mainly due to an increase of 162.0% in government grants received by the Group from RMB19.5 million in 2009 to RMB51.0 million in 2010. The loss in 2009 was primarily due to the impairment of intangible assets of RMB80.3 million, which was offset by a gain of RMB38.2 million from the disposal of an associated company.

Distribution costs

Distribution costs increased by 16.1% from RMB48.8 million in 2009 to RMB56.7 million in 2010. This increase was mainly due to an increase in our sales activities and related operational expenses. Our distribution costs also increased due to an increase in the number of sales and marketing staff, as well as their higher salary levels and benefits. The proportion of our distribution costs to total revenue decreased from 6.9% in 2009 to 5.5% in 2010, primarily due to our increased operating efficiency and economies of scale.

Administrative expenses

Administrative expenses increased by 63.5% from RMB78.8 million in 2009 to RMB128.8 million in 2010. The increase was primarily due to the expenses of RMB14.3 million in connection with the listing of the Company on the Hong Kong Stock Exchange, coupled with the increase in expenses associated with the establishment of our regional sales offices, as well as the expenses required to support and drive our larger scope of operations. The increase of our administrative expenses was also due to the employment of more staff and increases in salary and benefits levels for our administrative, finance and human resources personnel. The increase in amortization resulted from the purchase of R&D equipment, as well as higher salary and benefits levels for the Group's expanded R&D team.

Finance income/(costs) — net

Our finance income — net increased significantly from RMB5.6 million in 2009 to RMB21.8 million in 2010. The increase was mainly due to higher interest income of RMB17.4 million in 2010 from RMB6.2 million in 2009, as a result of greater in sales in 2010 and proceeds from the initial public offering in October 2010.

Share of profit of an associated company

The contribution of profit from our associated company, Beijing Purenhong, decreased from RMB2.4 million in 2009 to nil in 2010, which was due to our disposal of Beijing Purenhong in 2009.

Income tax expense

Our income tax expense increased by 90.3% from RMB67.4 million in 2009 to RMB128.2 million in 2010. Our effective tax rate for 2009 and 2010 were 17.7% and 20.2% respectively. This increase was mainly because of an additional tax payment as a result of the final clarification by the local tax authority during the year in respect of the preferential treatment received in previous years, as well as the increase in the applicable corporate income tax rate for some of our subsidiaries in certain economic zones in the PRC.

Profit for the year

As a result of the foregoing, our net profit increased by 61.6% from RMB313.7 million in 2009 to RMB506.9 million in 2010.

(The figures stated in the report have not been audited)

Profit attributable to equity owners of the Company

Profit attributable to equity owners of the Company, or net profit, increased by 60.0% from RMB326.3 million in 2009 to RMB522.1 million in 2010.

Non-controlling interests

The loss attributable to non-controlling interests increased by 19.7% from RMB12.7 million in 2009 to RMB15.2 million in 2010 and mainly resulted from an increase in the loss recorded by KBP BioSciences.

Liquidity and financial resources

As at 31 December 2010, the Group's cash and cash equivalents amounted to RMB5,851.4 million as compared to RMB612.9 million as at 31 December 2009. We generally deposit our excess cash in interest-bearing bank accounts and current accounts. Apart from trade and other payables and current income tax liabilities, the Group did not have other liabilities and bank loans, and as a result of this, no gearing ratio is included.

The Directors believe that the financial position of the Group is healthy, with sufficient financial resources to meet our requirements for future development.

Trade and other receivables

Our trade receivables consist of the credit sales of our products to be paid by our distributors. Our other receivables consist of prepayments to suppliers, deposits and other receivables. Our trade and other receivables increased by RMB118.8 million from RMB141.1 million as at 31 December 2009 to RMB259.9 million as at 31 December 2010. The increase in trade receivables was mainly due to the increase in credit sales to some of the distributors with whom we have enjoyed long-term relationships. The increase in prepayments to suppliers, deposits for R&D collaborations and other receivables was as a result of our expanded business operations and higher sales. In addition, a deposit of RMB60.4 million, paid by the Group as at 31 December 2010 in connection with the newly introduced Yimaining, was another reason for the increase in deposits and other receivables.

Inventory

Our inventory as at 31 December 2010 increased by approximately 24.2% from RMB43.0 million as at 31 December 2009 to RMB53.3 million, primarily due to the Group's anticipation of higher sales demand in early 2011. In 2010, the inventory turnover of finished products was 27.5 days as compared to 48.9 days in 2009. We had no inventory impairment in 2010.

Property, plant and equipment

Our property, plant and equipment consists of buildings, production and electronic equipment, motor vehicles and construction in progress. As at 31 December 2010, the net book value of property, plant and equipment amounted to RMB253.2 million, representing an increase of RMB91.1 million, or approximately 56.2%, as compared with the previous year. The increase in property, plant and equipment was mainly attributable to the purchase of our administrative offices, new production facilities and certain laboratory equipment.

(The figures stated in the report have not been audited)

Intangible assets

Our intangible assets mainly consist of goodwill, customer relationships, deferred development costs and product development in progress.

Our goodwill arose from the acquisitions of our subsidiaries. The deferred development costs and product development in progress mainly represent the acquisitions of certain pharmaceutical R&D projects from external research institutions. For these acquisitions, our management examined the technical feasibility of completing the remaining phases of those products and estimated that the products would be probable/ provide future economic benefits to the Group. Accordingly, our management recognized these costs as deferred development costs and product development in progress under intangible assets. As at 31 December 2010, net intangible assets amounted to RMB153.5 million, representing an increase of RMB16.0 million over the previous year, mainly resulting from the increase in the Group's product development in progress.

Trade and other payables

Our trade and other payables primarily consist of trade payables, advances from customers, other payables, accrued expenses and amounts due to Directors. As at 31 December 2010, trade and other payables was RMB138.9 million, an increase of RMB18.5 million as compared with 2009. The increase was mainly due to the increase in professional fees payable associated with our listing in 2010 and the amounts due to Directors.

Contingent liabilities and guarantees

As of 31 December 2010, the Group had no material contingent liabilities or guarantees (2009: nil).

Off-balance sheet commitments and arrangements

As of 31 December 2010, the Group had no off-balance sheet commitments or arrangements.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in our financial loss. We have no significant concentration of credit risk. Credit risk arises mainly from cash and cash equivalents and trade and other receivables. The carrying amounts of cash equivalents, short-term bank deposits and trade and other receivables, represent our maximum exposure to credit risk in relation to our financial assets.

With respect to cash and cash equivalents, we manage the credit risk of cash in the PRC by placing our bank deposits in large PRC state-controlled banks without significant credit risk. We manage the credit risk of cash outside the PRC by placing our bank deposits with financial institutions that have high credit quality.

With respect to trade and other receivables, we have policies in place to ensure that certain cash advances have been received upon the agreement of the related sales orders with customers. We assess the credit quality of the counterparties by taking into account their financial position, credit history and other factors. We also undertake certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. We regularly perform ageing analysis, assess credit risks and estimate the recoverability of groups of trade receivables bearing similar credit risk based on historical data and cash collection history.

No other financial assets bear a significant exposure to credit risk.

(The figures stated in the report have not been audited)

Treasury Policies

The Group finances its ordinary operations with internally generated resources.

Foreign exchange risk

The majority of sales income, costs and expenses of sales, as well as administrative expenses of the Group are calculated using Renminbi as the reporting currency. Apart from some bank deposits that are held in Hong Kong dollar and US dollar and some other currencies, most assets and liabilities of the Group are valued in Renminbi. Since Renminbi is the functional currency of the Group, risks in foreign exchange mainly come from assets valued in Hong Kong dollar, US dollar and some other currencies.

For the year ended 31 December 2010, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Capital Expenditure

Our capital expenditure primarily consists of the purchase of property, plant and equipment, land use rights and intangible assets. In 2010, our capital expenditures was RMB142.9 million, of which RMB107.8 million was spent on property, plant and equipment, and with the remaining RMB35.1 million spent on intangible assets that were additionally purchased or developed.

Capital Commitment

As of 31 December 2010, the Group had a total capital commitment of RMB2,254.8 million, mainly set aside to acquire a subsidiary and property, plant and equipment.

Pledge of assets

As at 31 December 2010, none of our assets was pledged.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Che Fengsheng (車馮升), aged 49, is our Chairman and CEO and was appointed to our Board on 18 May 2006. He is a co-founder of our Group. Dr. Che is responsible for the overall management, strategic planning and business development of our Group and is instrumental to our growth and business expansion since our establishment in 2001. Prior to our establishment, Dr. Che had more than eight years of experience as a medical doctor/neurologist and 17 years of experience in the sales and marketing of pharmaceutical products and the management of pharmaceutical companies. From 1991 to 1993, Dr. Che held the position of chief neurologist and lecturer at the First Military Medical University, Zhu Jiang Hospital, Guangzhou City, PRC (廣州市第一軍醫大學珠江醫院). Dr. Che was a neurologist and an assistant lecturer at the Fourth Military Medical University in Xi'an City, PRC (西安市第四軍醫大學) from 1990 to 1991 and at the Fourth Military Medical University, Xi Jing Hospital in Xi'an City, PRC from 1984 to 1987.

Dr. Che is the vice-chairman of several committees and associations, including China Political Science Training Centre (中國政策科學培訓中心), China Medical Economics Magazine Board (中國藥物經濟學雜誌社) and the Hainan Entrepreneurs Association (海南省企業家協會). Dr. Che is also the deputy supervisor of the Hainan Food and Drug Working Committee in the Hainan Entrepreneurs Association (海南省企業家協會食品藥業工作委員會) as well as a specially-appointed research member of the China Enterprise Reform and Development Research Institute (中國企業改革發展研究院). In 2006, he was named one of the Top 10 New and Enterprising Businessmen (首屆海南省工商業十大新銳人物) in the Hainan Province by the Hainan Province Commerce Association (海南省商業聯合會), Hainan Industry & Economics Association (海南省工業經濟聯合會) and the Evaluation Committee of Top 10 Leading Businessmen and Top 10 New and Enterprising Businessmen in Industry and Commerce in Hainan (海南省工商業十大領軍人物十大新銳人物評委會). Dr. Che was appointed as President of Commerce Chamber of Hainan in 2009. Dr. Che received his Bachelor of Medicine (Aviation) (航空醫學) and Master of Medicine (Neurology) from the Fourth Military Medical University, Xi'an City, PRC, in 1984 and 1990 respectively. He also received an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in 1999.

Dr. Guo Weicheng (郭維城), aged 47, is our deputy chairman and was appointed to our Board on 18 May 2006. He is a co-founder of our Group. Dr. Guo is responsible for the overall operations of our Group and our research and development activities, with a focus on strategic planning, particularly in relation to mergers and acquisitions and product collaborations. He has also become responsible for Shenzhen Sihuan's overall operations after it was acquired in 2007. Dr. Guo is instrumental to our Group's growth and business expansion since our establishment in 2001. Prior to our establishment, Dr. Guo had more than four years of experience as a general surgeon and more than 17 years of experience in the sales and marketing of pharmaceutical products. From 1992 to 1993, Dr. Guo held the position of chief surgeon in Guangzhou Military 177 Hospital. Dr. Guo was a surgeon and assistant lecturer at the Fourth Military Medical University, Tang Du Hospital, Xi'an City, PRC from 1986 to 1989. Dr. Guo received his Bachelor of Medicine and Master of Medicine (General Surgery) from the Fourth Military Medical University, PRC in 1986 and 1992, respectively.

Mr. Meng Xianhui (孟憲慧), aged 47, is our executive Director and deputy general manager and was appointed to our Board on 18 May 2006. He joined our Group in 2002 and is responsible for public and governmental relationships as well as operations of the sales and marketing network of our Group in certain regions. Prior to joining our Group, Mr. Meng had more than seven years of experience in the pharmaceutical industry in the areas of marketing, sales and distribution of pharmaceutical products. Between 1987 and 1997, Mr. Meng was the departmental head of Jilin Materials Bureau (吉林省物資局) where he was responsible for planning the allocation of production materials. Mr. Meng was conferred the title of Economist by the Jilin Provincial Government in 1993.

Mr. Meng received a Graduate Certificate in Management Engineering from Huazhong Engineering College (華中工學院) (now known as Huazhong University of Science and Technology (華中理工大學)), PRC in 1987. He undertook a one-year Postgraduate Business Administration course in Peking University, PRC from 2004 to 2005.

NON-EXECUTIVE DIRECTORS

Dr. Zhang Jionglong (張炯龍), aged 49, is our non-executive Director and was appointed to our Board on 18 May 2006. He joined our Group in 2005 and has more than nine years of experience as a medical doctor. From 1983 to 1992, Dr. Zhang worked as a medical doctor in Shenzhen City People's Hospital, one of the largest hospitals in Shenzhen City, PRC. Dr. Zhang received a Graduate Certificate in Medical Treatment from Shantou Medical College, PRC (汕頭醫學專科學院) (now known as Shantou University Medical College (汕頭大學醫學院)) in 1983. In 1992, Dr. Zhang was conferred the professional title of Chief Physician by the Shenzhen City Title Conferment Reform Leadership Group (深圳市職稱改革領導小組).

Mr. Homer Sun (孫弘), aged 40, is our non-executive Director and was appointed to our Board on 13 December 2009. He is currently a managing director of Morgan Stanley Asia Limited and leads the China investments of Morgan Stanley Private Equity Asia. He is currently a non-executive director of China Shanshui Cement Group Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 691), as well as a non-executive director of China Flooring Holding Company Limited. Mr. Sun has been with Morgan Stanley Asia Limited since April 2000 and worked on a wide range of mergers and acquisitions in Greater China region in the Investment Banking Division of Morgan Stanley Asia Limited prior to joining Morgan Stanley Private Equity Asia. From September 1996 to March 2000, he was a corporate attorney specialising in mergers and acquisitions with Simpson Thacher & Bartlett stationed in New York and Hong Kong. Mr. Sun received a Bachelor of Science in Chemical Engineering, magna cum laude, from the University of Michigan in 1993 and a J.D., cum laude, from the University of Michigan Law School in 1996.

Mr. Eddy Huang, aged 36, is our non-executive Director and was appointed to our Board on 5 August 2010. He is currently an managing director of Morgan Stanley Asia Limited and a senior member of Morgan Stanley Private Equity Asia focusing on China investments. Mr. Eddy Huang has been with Morgan Stanley Asia Limited since 2003 and advised on a broad range of technology, media and communications transactions for the Investment Banking Division of Morgan Stanley Asia Limited prior to joining Morgan Stanley Private Equity Asia. Prior to joining Morgan Stanley Asia Limited, Mr. Huang was previously with the Investment Banking Division of Morgan Stanley in New York and the Financial Institutions Investment Banking Group of Merrill Lynch in New York. Mr. Huang is a director of CIMIC Industrial Group Ltd. and its subsidiary, Shanghai CIMIC Tiles Co., Ltd., which is a Shenzhen-listed company (Stock Code: 002162), as well as a director of China Flooring Holding Company Limited. Mr. Huang received a Bachelor of Arts in Economics and East Asian Studies from Yale University in 1997 and a Master of Business Administration from Harvard Business School in 2002.

INDEPENDENT DIRECTORS

Mr. Patrick Sun (辛定華), aged 53, is an independent non-executive Director of our Company and was appointed to our Board on 7 October 2010. Mr. Sun has been an independent non-executive director and non-executive chairman of Solomon Systech International Limited (Stock Code: 2878) from February 2004, an independent non-executive director of China Railway Group Limited (Stock Code: 390) from August 2007 and an independent non-executive director of Trinity Limited (Stock Code: 891) from October 2008 (all of which are listed on the Stock Exchange). He is currently a vice chairman of the Chamber of Hong Kong Listed Companies and was formerly its Honorary Chief Executive Officer from December 2002 to September 2004. He was a member of the Takeovers & Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Exchange from 1995 to 1997 and from 1999 to 2001, Deputy Convenor/Chairman of the Listing Committee from 1996 to 2002 and a member of the Council of the Stock Exchange from 1995 to 2000. He was previously the Senior Country Officer and Head of Investment Banking for Hong Kong of JPMorgan Chase from 2000 to 2002. He also previously served as an executive director and chief executive officer of Value Convergence Holdings Limited (Stock Code: 821) from August 2006 to October 2009, executive director of SW Kingsway Capital Holdings Limited (Stock Code: 188) from September 2004 and May 2006 (both of which are listed on the Stock Exchange), group executive director and co-head of Investment Banking of Jardine Fleming Holdings Limited from 1996 to 2000, independent non-executive director of Link Management Limited between September 2004 and July 2007, and independent non-executive director of Everbright Pramerica Fund Management Co., Ltd.. Mr. Sun graduated from the Wharton School of the University of Pennsylvania, United States with a Bachelor of Science in Economics in 1981. Mr. Sun is a fellow of the Chartered Association of Certified Accountants, United Kingdom, and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Bai Huiliang (白慧良), aged 68, is our independent non-executive Director and was appointed to our Board on 7 October 2010. He has more than 30 years of experience in the industry of managing pharmaceutical products and drugs supervision and is familiar with the development of the pharmaceutical industry and was involved in the drafting and formulating the rules of drugs regulatory laws and regulations. Mr. Bai is currently the president of China OTC Association (中國非處方藥物協會會長) and the vice president of the enterprise management branch under the Chinese Medical Association (中國醫藥企業管理協會副會長).

Mr. Bai received a Graduate Certificate in Organic Synthesis from Beijing University of Technology in 1968. Between 1967 and 1997, Mr. Bai held the positions of technician and secretary in Factory No. 12 of Shenyang Northeast Pharmaceutical Main Factory Workshop (瀋陽東北製藥總廠十二車間), personnel director in State Pharmaceutical Administration and Production Association (國家醫藥管理總局生產調度局任人事司), deputy director in the Technical Department (技術幹部處副處), deputy director of Personnel Department and deputy director of Politics and Law Departments of the State Pharmaceutical Administration (國家醫藥管理局任人事司副司長，政法司副司長) and chief engineer in China Xinxing Medical and Pharmaceutical Technology Development Corporation (中國新興醫藥科技發展總公司). Before Mr. Bai's retirement in March 2005, he served as the director of drug safety supervision division of State Food and Drug Administration (國家食品藥品監督管理局任藥品安全監管司司長) where he was primarily responsible for national pharmaceutical research and production and supervision of special drugs. Since January 2010 and April 2010, Mr. Bai has acted as independent director of Shanghai Pharma Group (上藥集團公司) and Gansu Duyiwei Biological Pharmaceutical Co., Ltd. (甘肅獨一味生物製藥股份有限公司) (listed on the Shenzhen Stock Exchange; Stock code: 002219) respectively.

Mr. Xu Kangsen (徐康森), aged 69, is our independent non-executive Director and was appointed to our Board on 7 October 2010. He has more than 40 years of experience in the industry of analysing and researching of the pharmaceutical and biological products and biochemical drugs. Mr. Xu received a Graduate Certificate in Biological Chemistry from Fudan University in 1965. Between 1965 and 2005, Mr. Xu worked as assistant researcher and researcher specialising in biological and pharmaceutical products and director of genetic engineering of pharmaceutical products branch at Ministry of Health, Pharmaceutical and Biological Products (衛生部藥品生物製品檢定所). From 2005 to 2007, Mr. Xu worked as researcher and deputy director of the research centre of State of Standardising Pharmaceutical and Biological Products (中國藥品生物製品標準化研究中心). Before Mr. Xu's retirement in January 2008, he served as deputy director and researcher at State of Standardising Pharmaceutical and Biological Products (中國藥品生物製品標準化研究中心).

SENIOR MANAGEMENT

Ms. Gu Jin (顧津), aged 42, the wife of Dr. Che, is our deputy general manager (administration and human resources). She joined our Group in 2001 as the head of the administration and human resources departments of our Group, overseeing various matters including recruitment of staff, staff remuneration, as well as staff training. Ms. Gu helps to ensure that our employees are well-trained and motivated to excel in their work. She graduated from the finance profession (金融專業專科畢業) of Lan Zhou Commerce College in the PRC in 1993 and completed an Executive Master in Business Administration advanced level course in the National Medicine and Medical Devices Industry from Peking University in 2006.

Mr. Huang Zhenhua (黃振華), aged 44, is responsible for overseeing the research and development functions of our Group, particularly the research and development efforts at KBP BioSciences. He joined our Group in 2008 and he has more than 20 years' experience in the pharmaceutical industry, and leads a team of more than 300 scientists and researchers, some of whom have gained invaluable experience working overseas, especially in the United States and Japan. Mr. Huang received a Bachelor of Pharmacy and a Master of Pharmacy from Shenyang Pharmaceutical University in 1990 and 2004 respectively.

Ms. Jia Zhongxin (賈中新), aged 52, is our chief operating officer. Ms Jia joined our Group in 2007 and is a practising pharmacist and senior engineer. Ms. Jia received a Bachelor in Pharmacy in 1982 from the Medical Department of Peking University (formerly known as Beijing Medicine College, Beijing Medical University) and a Master in Business Administration from the University of South Australia in 2004. She had held various managerial positions in many companies. Between January 2006 and November 2007, Ms. Jia headed the biomedical department of China Baoan Group Co., Ltd. and was also chairman of Shenzhen Daphne Pharmaceutical Co., Ltd. Prior to that, she was the chief executive officer of Wuhan Ma Ying Long Pharmaceutical Co., Ltd. and chairman of Wuhan Ma Ying Long Chained Pharmacies Co., Ltd. from November 2002 to December 2005.

Mr. Choi Yiau Chong, aged 37, is our chief financial officer and one of the joint company secretaries. Mr. Choi joined our Group in 2006 and is responsible for overseeing and managing the accounting and finance functions of our Group. Prior to joining our Group, Mr. Choi gained his finance and accounting experience at Titan Petrolchemicals (M) Sdn. Bhd., a subsidiary of Titan Chemicals Corp. Bhd., a company listed on the main board of Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange) and at Deloitte and Touche. Mr. Choi received a Bachelor of Commerce (Accounting) from Nelson Polytechnic (now known as Nelson Marlborough Institute of Technology), New Zealand in 1997. He is a member of the Chartered Institute of Management Accountants (UK) and also a member of the Institute of Certified Public Accountants of Singapore.

Ms. Yuan Tingjun (袁廷均), aged 47, is our general manager (production and quality control). Ms. Yuan joined our Group in 2003 and is responsible for overseeing the production and quality control functions of our Group. Before joining our Group, she held various managerial and marketing positions in several pharmaceutical companies. She also had seven years of experience as a researcher during which she carried out research on Chinese medicines. Ms. Yuan received a Bachelor of Science (Chemistry) from Sichuan University in 1986 and a Master of Science from Sichuan University in 1989.

Dr. Huo Caixia (霍彩霞), aged 41, is our assistant general manager (research and development) and head of Beijing Ao He Research. Dr. Huo joined our Group in 2004 and is responsible for the registrations of pharmaceutical products and assists in overseeing the research and development functions of our Group. Between 2002 and 2004, she was an assistant researcher at the Chemistry Research Institution of the Chinese Academy of Sciences. Dr. Huo received a Bachelor of Science (Pharmacy) from Inner Mongolia Medical College in 1993, a Master of Science (Pharmaceutical Chemistry) from Inner Mongolia Medical College in 1998 and a Doctor of Science (Pharmaceutical Chemistry) from Peking University in 2002.

Mr. Lin Guotan (林國潭), aged 42, is our deputy general manager (Hainan Sihuan). Mr. Lin joined our Group in 2005 and is in charge of Hainan Sihuan, our key marketing subsidiary. He started his career in the pharmaceutical industry in 1993 and joined our Group in 2005 as marketing director then promoted as general manager of Hainan Sihuan. He received a Bachelor of English from Luoyang Institute of Technology in 1993 and a Master of Business Administration from Tongji University in 2002.

Dr. Gao Jianhua (高建華), aged 54, is our chairman at Langfang Sihuan and joined our Group in 2009. Dr. Gao has extensive experience in drug research, particularly pharmaceutical API and intermediates in chemical process. Dr. Gao received a Bachelor of Science (Pharmacy) from Shanghai First Medical College (now known as Fudan University) in 1982 and a Master of Medicine from the Academy of Military Medical Sciences in 1985. Dr. Gao received his PhD in Pharmacy from the Chinese Military Academy of Medical Sciences in the PRC (中國軍事醫學科學院) in 1988 and the University of North Carolina in the United States in 1994. From 1988 to 1990, Dr. Gao served as researcher in pharmacy in Chinese Military Academy of Medical Sciences (中國軍事醫學科學院六所). From 1990 to 1998, Dr. Gao was the deputy director and then was promoted to researcher at Beijing Sihuan (formerly known as Chinese Military Academy of Medical Sciences Sihuan Pharmaceutical Factory (軍科院六所四環製藥廠)). In the same year, Dr. Gao founded and acted as the Chairman of Beijing Gao Bo Pharmaceutical Chemical Technical Development Co., Ltd. (北京高博醫藥化學技術開發有限公司).

Dr. Song Yuntao (宋運濤), aged 47, is our chief scientific officer and chief operating officer (KBP BioSciences). Dr. Song joined our Group in 2009. Dr. Song received a Bachelor of Science degree in Chemistry from Shandong University in 1986 and his PhD in Chemistry from the University of Wisconsin at Madison in the United States in 1992 and gained valuable research and development experience at top research institutes, including 15 years experience with Park-Davis (Warner-Lambert)/Pfizer Inc. Before joining our Group, he was the president and chief executive officer of Beijing Pharma Sciences Co., Ltd., a leading contract research organization (CRO) in Beijing. He is now responsible for research and development activities at both KBP BioSciences and Hainan Sihuan CVD Research.

JOINT COMPANY SECRETARIES

Mr. Choi Yiau Chong, is our chief financial officer and joint company secretary. Please refer to this section headed "Senior Management" for his biography.

Ms. Ma Sau Kuen Gloria (馬秀絹), aged 52, is our joint company secretary. Ms. Ma is a director and head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Ms. Ma has almost 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on the Stock Exchange of Hong Kong Limited, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Corporate Governance Report

Good corporate governance is favorable for the improvement of the overall performance, transparency and accountability of the Company and is crucial to the modern corporate administration. The Board of Directors (the "Board"), in the interests of Shareholders, devotes considerable efforts to maintaining and ensuring a high standard of corporate governance.

CORPORATE GOVERNANCE CODE

Since the Group was only listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2010 (the "Listing Date"), the Group was a private enterprise during most of the year under review. The Company had adopted the Code on Corporate Governance Practice (the "Corporate Governance Code") under Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and had complied with all the applicable code provisions for the period from the Listing Date to 31 December 2010, save and except for the deviation from code provision A.2.1 of the Corporate Governance Code with details set out below.

BOARD OF DIRECTORS

The Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. Save for Dr. Che Fengsheng who is the Chairman and chief executive officer of the Company, there is no financial, business, family or other material relationship among the members of the Board. The biographical information of the members of the Board and their relationship are set out on pages 26 to 31 in the section headed "Biographical Details of Directors and Senior Management".

The Board is responsible for the governance of the Group's strategic development, determination of the Group's objectives, business strategies and policies, and the supervision and control of the operation and financial performance in pursuit of the Group's strategic objectives. Our management team, which possesses extensive operating experience and industry knowledge, has been delegated by the Board with the authority and responsibility for the day-to-day management of our Group. In addition, the Board has also delegated certain specific responsibilities to the various Board committees, namely, audit committee, remuneration committee and nomination committee. Further details of these Board committees are set out below.

The Board held one Board meeting for the period from the Listing Date to 31 December 2010. All Directors were sent a meeting notice with the board meeting agenda. The views of independent non-executive Directors were actively solicited by the Company even if they were unable to attend the meetings of the Board. Minutes of the Board and the board committees are kept by duly appointed secretaries of the respective meetings. All Directors are entitled to access to Board papers and related statistics, and will be provided with adequate statistics on a timely manner, which enable the Board to make informed decisions on matters proposed. In addition, all Board members have regularly reviewed the business documents and information related to the Group.

The attendance of each Director at the Board meeting, during the period from the Listing Date to 31 December 2010, is stated below:

	Number of board meeting attended/held
Executive Directors	
Dr. Che Fengsheng *(Chairman and CEO)*	1/1
Dr. Guo Weicheng *(Deputy Chairman)*	1/1
Mr. Meng Xianhui *(Deputy General Manager)*	1/1
Non-executive Directors	
Dr. Zhang Jionglong	1/1
Mr. Homer Sun	1/1
Mr. Eddy Huang	0/1
Independent Non-executive Directors	
Mr. Patrick Sun	1/1
Mr. Bai Huiliang	1/1
Mr. Xu Kangsen	0/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Corporate Governance Code provision A.2.1 stipulates that the roles of chairman of the board (the "Chairman") and chief executive officer ("CEO") should be separate and should not be performed by the same individual, but the Company does not meet this requirement currently. Given the Group's current development under the circumstance, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes the Group's operational effectiveness. Dr. Che Fengsheng has been both the Chairman and CEO of the Group, and his responsibilities are clearly set out in writing and approved by the Board. The Board will review the structure from time to time and will consider the appropriate adjustments when the circumstance is suitable.

NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has appointed three non-executive Directors and three independent non-executive Directors. One of the three independent non-executive Directors holds appropriate professional qualifications, or accounting or related financial management expertise set out in Rule 3.10 of the Listing Rules. All non-executive Directors of the Company have entered into letter of appointment with the Company for an initial term of one year commencing from the Listing Date, and shall continue thereafter unless terminated by either party giving at least three months' notice in writing. The non-executive Directors are subject to retirement by rotation or re-election in accordance with the Company's bye-laws. Each independent non-executive Director has submitted an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Group considers that all independent non-executive Directors are independent and meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The bye-laws of our Company provide that all our Directors are subject to retirement by rotation at least once every three years and at each annual general meeting, one-third of our Directors for the time being (or, if the number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation and if eligible, offer themselves for re-election. In addition, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. The retiring Directors are eligible for re-election by the shareholders at the respective general meetings.

Pursuant to the written resolutions of the shareholders of the Company passed on 7 October 2010, all Directors shall retire at the forthcoming AGM and, being eligible, they, except for Mr. Homer Sun and Mr. Eddy Huang, will offer themselves for re-election at the meeting.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal.

As such, the Board considers that sufficient measures have been put in place to ensure our Company's corporate governance practice in this aspect provides sufficient protection for the interests of shareholders to a standard commensurate with the provision of the Code.

AUDIT COMMITTEE

On 8 October 2010, the Company established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code. The audit committee consists of one non-executive Director (Dr. Zhang Jionglong), and three independent non-executive Directors (Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy. The primary duties of the audit committee are to assist the Board to provide an independent view on the effectiveness of the financial reporting procedures, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

During the period from the Listing Date to 31 December 2010, no meeting was held by the audit committee. Up to the date of this annual report, the audit committee had reviewed the Group's financial reporting matters, and reviewed the internal control system in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the audit committee are consistent with the provisions set out in the relevant sections of the Corporate Governance Code.

In addition, the audit committee had reviewed, discussed and approved the annual results of the Group for the year ended 31 December 2010. The audit committee also reviewed the auditor's remuneration and recommended the Board to re-appoint PricewaterhouseCoopers as the Company's auditor in the year 2011, which is subject to the approval of shareholders at the forthcoming annual general meeting.

NOMINATION COMMITTEE

On 8 October 2010, the Company established a nomination committee with written terms of reference in compliance with the requirements of the Corporate Governance Code. The nomination committee consists of one executive Director (Dr. Guo Weicheng) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen), and is chaired by Dr. Guo Weicheng. The primary duties of the nomination committee include, among others, reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors and making recommendation to the Board on matters relating to the appointment of Directors. The terms of reference of the nomination committee are consistent with the provisions set out in the relevant sections of the Corporate Governance Code.

During the period from the Listing Date to 31 December 2010, no meeting was held by the nomination committee.

REMUNERATION COMMITTEE

On 8 October 2010, the Group established a remuneration committee with written terms of reference in compliance with the requirements set out in paragraph B.1 of the Corporate Governance Code, for the purpose of ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The remuneration committee consists of an executive director (Dr. Che Fengsheng as the Chairman and CEO of the Group), and three independent non-executive Directors (Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen), and is chaired by Dr. Che Fengsheng. The primary duties of the remuneration committee include, among others:

- Making recommendations to the Directors on the policy and structure on the remuneration of all Directors and senior management and on the establishment of a formal procedure with transparency for developing policies on remuneration;
- Determining the terms of the specific remuneration package of the Directors and senior management; and
- Reviewing and approving performance-based remuneration by reference to the corporate goals and objectives determined by the Directors from time to time.

The remuneration committee ensures that no director is involved in determining his/her own remuneration. The terms of reference of the remuneration committee are consistent with the provisions set out in the relevant sections of the Corporate Governance Code.

During the period from the Listing Date to 31 December 2010, no meeting was held by the remuneration committee.

CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by the Directors. Having made specific enquiry, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the period from the Listing Date to 31 December 2010.

To comply with the code provision A.5.4 of the Corporate Governance Code, the Group has also established and adopted the Model Code as the code of conduct for securities transactions by relevant employees to regulate the dealings in the securities of the Group by certain employees of the Group who are deemed to be likely in possession of the unpublished price sensitive information of the Group.

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors confirmed that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group for the financial year ended 31 December 2010.

A statement on reporting responsibility with respect to the external auditor of the Company is set out on pages 49 to 50 of this annual report.

INTERNAL CONTROL

The Board has the responsibility to ensure that a sound and effective internal control system is maintained within the Group. The Company and its subsidiaries have adopted internal control procedures and policies to safeguard the assets, to ensure proper maintenance of accounting records and to carry out a reliable financial reporting, and to guarantee compliance with the relevant laws and regulations. As at 31 December 2010, to the knowledge of the Directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern. For the year ended 31 December 2010, based on the Board's annual review of the effectiveness of the internal control system which covered all material controls including financial, operational and compliance controls and risk management functions, the Board considers the internal control system of the Group is sufficient and effective.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meeting of the Company provides the opportunity of exchanging views between the Directors and the shareholders. The chairman of the Board and the chairman of the nomination committee, remuneration committee and audit committee will present at the general meeting to answer shareholders' questions.

The annual general meeting of the Company (the "AGM") will be held on 3 June 2011. The notice of the AGM will be delivered to the shareholders at least 20 clear business days before the AGM.

To further enhance effective communication between the Company and the shareholders, the Company has set up a website www.sihuanpharm.com to help keep the public informed of the financial information, corporate governance and other data and latest information posted by the Company.

AUDITOR'S REMUNERATION

For the year ended 31 December 2010, the auditor of the Group provided audit and non-audit services for the Group. The service fees for audit and non-audit services in 2010 amounted to RMB2,100,000 and RMB7,572,828 respectively.

NON-COMPETITION UNDERTAKING

As disclosed in the Company's prospectus dated 15 October 2010 (the "Prospectus"), each of the Controlling Shareholders (collectively, the "Convenantors" and each a "Convenantor") entered into a deed of non-competition undertaking with the Company on 9 October 2010 (the "Deed of non-competition") pursuant to which each of the Convenantors has, among other things, irrevocably and unconditionally undertaken with the Company that at any time during the relevant period, each of the Convenantors shall, and shall procure that its associates (other than members of our Group):

(i) not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in or render any services to or provide any financial support to or otherwise be involved in, whether on its own account or with each other or in conjunction with or on behalf of any person or company, any business which is the same as, similar to or in competition with the business of the Group; and

(ii) not take any action which interferes with or disrupts or may interfere with or disrupt the business of the Group.

The Convenantors have provided the annual declaration in respect of their compliance with the terms of Deed of non-competition undertaking given by them.

The independent non-executive Directors have also reviewed the compliance by the Convenantors with the Deed of non-competition undertaking.

Report of the Directors

The Board is pleased to present the Directors' report together with the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 1 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2010 is set out in Note 5 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2010 are set out in the Consolidated Statement of Comprehensive Income on page 54 of this annual report.

The Board does not propose a final dividend for the year ended 31 December 2010.

FINANCIAL HIGHLIGHTS

A summary of the Group's results and assets and liabilities for the last four financial years is set out on page 6 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during this year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company together with the reasons during the year and as at the date of this report are set out in Note 15 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2010, the Group did not have any outstanding bank loans and other borrowings.

SHARES AND RESERVES

Details of movements in the shares and reserves of the Company during the year are set out in the Consolidated Statement of Changes in Equity and also in Note 15 and 16 to the consolidated financial statements. As at the balance sheet date, the Company's reserves available for distribution to shareholders amounted to RMB891,582,000 (2009: RMB545,747,000).Other than the shares issued in relation to the Listing of the Company and as disclosed in the Prospectus, the Company had not issued any shares during the year.

SHARE OPTION SCHEME

The Company has not implemented a share option scheme.

MANAGEMENT INCENTIVE SCHEME

An award scheme for the purpose of incentivising the management of our Group (the "Management Incentive Scheme") has been adopted by certain Shareholders of our Company (namely, Plenty Gold, Dr. Che and Dr. Guo). Trustee Co (a private trust company established in the British Virgin Islands and wholly-owned by Plenty Gold) has been appointed as the trustee (the "Scheme Trustee") to hold the reserve shares under the Management Incentive Scheme, and the Scheme Trustee will, upon receiving instructions from the remuneration committee of our Company, award to selected management personnel of our Group (excluding Directors) (a "Grantee") the rights to acquire the Reserve Shares ("Awards") at a price of HK$5.60 per Reserve Share (the "Option Price") from time to time.

Plenty Gold, Dr. Che and Dr. Guo, as settlors (the "Settlors") of a trust, has reserved and set aside a total of 33,750,000 Shares (or approximately 0.65%) of the total number of issued Shares, which are being held by Trustee Co as trustee for the Management Incentive Scheme.

The Management Incentive Scheme involves granting of existing Shares and no new Shares will be issued pursuant to this arrangement. The Reserve Shares will not be counted towards the public float as Grantees of Awards will be selected management personnel of our Group (excluding Directors) and the Settlors are connected persons. All related award schemes (including this Management Incentive Scheme) will not in aggregate exceed 30% of the issued share capital of our Company. The remuneration committee of our Company shall determine which employee will be granted the Awards, and Awards may be granted at any time during a period of three years commencing on the Listing Date. Subject to satisfying certain terms and conditions for exercise of the Awards, including our Company meeting certain pre-set profit thresholds for any relevant financial year, a Grantee may exercise any portion of his or her Award accepted by him/her at any time before the deadline for exercising the Award as stated in the offer letter from the Scheme Trustee to such employee.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of the Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the period from the Listing Date to 31 December 2010.

MAJOR CUSTOMERS AND SUPPLIERS

In 2010, the aggregate sales attributable to the Group's largest customer and five largest customers were 5.7% and 17.7% respectively of the Group's sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers were 27.3% and 64.2% repectively of the Group's purchases for the year.

Neither the Directors or chief executive or any of their associates or any shareholder (which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers during the year.

MATERIAL RELATED PARTY TRANSACTIONS

A summary of the related parties transactions entered into by the Group during the year ended 31 December 2010 is contained in Notes 17, 21 and 29 to the Notes to the Financial Statements.

The transactions as disclosed in Note 17 (accrued performance bonus to directors) and Note 21 (directors' emoluments fall under the definition of connected transactions under the Listing Rules but are exempt from the reporting announcement and independent shareholders approval requirements under Rule 14A.31 of the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended 31 December 2010.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2010 and up to the date of this report, the Group conducted the following transactions which constituted continuing connected transactions for the Company under the Listing Rules:

Exempt Continuing Connected Transactions

Details of the continuing connected transactions of the Company which are exempt from the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules are set out below:

(1) Patent licensing agreements with Dr. Guo and Dr. Che

On 24 June 2010, Guo Weicheng ("Dr. Guo"), an executive Director and one of the co-founders of our Group and Shenzhen Sihuan Pharmaceutical Co., Ltd. ("Shenzhen Sihuan"), an indirect wholly-owned subsidiary of our Company, entered into a patent licensing agreement ("First Patent Licensing Agreement"), pursuant to which Dr. Guo has granted Shenzhen Sihuan a license, free of royalty with the right to use the patent of

Lyophilized Cerebroprotein Hydrolysate for Injection and its Preparation Method ("First PRC Patent") until the expiry date of the registration of the First PRC Patent on 12 October 2026.

On 28 July 2010, Dr. Che and Beijing Sihuan Pharmaceutical Co., Ltd ("Beijing Sihuan"), an indirect wholly-owned subsidiary of our Company, entered into a patent licensing agreement ("Second Patent Licensing Agreement"), pursuant to which Dr. Che has granted Beijing Sihuan a license, free of royalty with the right to use the patent of Cinepazide Medicinal Salt and its Preparation ("Second PRC Patent") until the expiry date of the registration of the Second PRC Patent on 7 August 2026.

On 20 August 2010, Dr. Guo entered into a patent transfer agreement with Shenzhen Sihuan to transfer the First PRC Patent to Shenzhen Sihuan at nil consideration and the necessary registration procedures to complete the transfer has commenced in the PRC. Furthermore, on 20 August 2010, Dr. Che entered into a patent trasfer agreement with Beijing Sihuan to transfer the Second PRC Patent to Beijing Sihuan at nil consideration and the necessary registration procedures to complete the transfer has commenced in the PRC. As at 31 December 2010, the transfers of the First PRC Patent and the Second PRC Patent were still under processing.

Piror to completion of the transfer of each of the First PRC Patent and the Second PRC Patent to our Group and pursuant to the Listing Rules, the licensing arragements pursuant to the First Patent Licensing Agreement and the Second Patent Licensing Agreement constitute continuing connected transactions of our Company as Dr. Guo and Dr. Che being the Directors and members of the controlling shareholder group of the Company, are connected persons of the Company. As the right to use the First PRC Patent and the Second PRC Patent is granted to us on a royalty-free basis by Dr. Guo and Dr. Che, respectively, the transactions under the First Patent Licensing Agreement and Second Patent Licensing Agreement are exempt continuing connected transactions as they fall within the de-minimis thresholds in Rule 14A.33(3) of the Listing Rules.

Our Directors are of the view that the First Patent Licensing Agreement and Second Patent Licensing Agreement were entered into in the ordinary course of our business and on terms favourable to our Group, which are in the interests of our Shareholders as a whole.

(2) Service contract with KBP Japan

On 1 January 2009, KBP BioSciences Co., Ltd ("KBP BioSciences"), entered into a service contract (the "Service Contract") with KBP 株式會社 ("KBP Japan"), with effect from 1 January 2009 to 31 December 2010, on normal commercial terms pursuant to which KBP Japan would provide services to KBP BioSciences, including collecting market data relating to R&D and conducting clinical testing on KBP BioSciences' products in Japan at a service fee of JPY1.3 million per month, which was determined based on the nature and costs of the services provided by KBP Japan. The servuce fee excludes costs for onward appointment work such as clinical testing fees which will be borne by KBP BioSciences itself or paid by KBP Japan on behalf of KBP BioSciences.

KBP BioScience is a subsidiary of our Company and owned as to 60% by Hainan Sihuan, an indirect wholly-owned subsidiary of our Company, 17% by Mr. Huang, one of the senior management members of our Company and 23% by Ms. Cai Jun, the wife of Mr. Huang. KBP Japan is owned as to 60% by Dr. Che, our Chairman, CEO, and an executive Director and one of the co-founders of our Group and 40% by Mr. Huang. The total amounts attributable to the Service Contract for the year ended 31 December 2010 was RMB1,188,521.5. The Service Contract is an exempt continuing connected transaction as it falls within the de-minimus thresholds in Rule 14A.33(3) of the Listing Rules.

Non-fully Exempted Continuing Connected Transactions

(3) Funding arrangement with KBP BioSciences Co., Ltd.

As disclosed in the Prospectus, Hainan Sihuan historically had an informal arrangement (the "Funding Arrangement") with its 60% subsidiary, KBP BioSciences, whereby Hainan Sihuan, as shareholder, had been providing all the funding to KBP BioSciences to finance its working capital and daily operations after KBP BioSciences became a subsidiary of Hainan Sihuan in January 2008. The reason for the funding was that KBP BioSciences only started operations in January 2008 and it has yet to generate any income. No funding had been provided by the remaining shareholders of KBP BioSciences. KBP BioSciences became a subsidiary of Hainan Sihuan in January 2008 when the latter acquired a 75% interest in KBP BioSciences. In April 2008, Hainan Sihuan sold a 15% interest to another shareholder and hence it currently maintains a 60% shareholding in KBP BioSciences. Mr. Huang Zhenhua ("Mr. Huang") is a director and Chief Executive Officer of KBP BioSciences and also holds a 17% interest in the company. Pursuant to the Listing Rules, Mr. Huang, being a member of the controlling shareholder group of the Company, is a connected person of the Company. Mr. Huang's wife, Ms. Cai Jun, holds a 23% interest in KBP BioSciences.

Hence, in light of the 40% equity interest held by Mr. Huang and his wife in KBP BioSciences, KBP BioSciences constitute a connected person of the Company under Rule 14A.11(4) by way of it being an associate of a connected person of the Company as well as Rule14A.11(5) by way of being a non-wholly-owned subsidiary where a connected person of the Company is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of such non-wholly-owned subsidiary.

The Funding Arrangement does not stipulate any specific terms (such as interest rate and maturity date) of repayment of the loans by KBP BioSciences. Starting from 2011, the Funding Arrangement would be provided on a pro-rata basis by all the shareholders of KBP BioSciences and not only by Hainan Sihuan. As the Funding Arrangement in 2010 has not been and will not be, after Listing, borne on a pro rata basis by all the shareholders of KBP BioSciences according to the proportion of their equity interests, the Funding Arrangement is a non-exempted connected transaction according to Chapter 14 of the Listing Rules.

Funding pursuant to the Funding Arrangement has been made on a monthly basis which is based on monthly and annual estimates of the working capital requirements of KBP BioSciences.

Under an agreement dated 9 October 2010 between Hainan Sihuan Pharmaceutical Co., Ltd. and KBP BioSciences Co., Ltd. (the "Funding Agreement"), it was agreed between the parties that the Funding Arrangement would continue until 31 December 2012. The amount for the Funding Arrangement for the period from the date of Listing up to 31 December 2010 was approximately RMB10.3 million (which did not exceed the estimated amount of RMB24,562,456.5 as disclosed in the Prospectus and which estimate had been determined based on an estimate of the capital requirement of KBP BioSciences Co., Ltd. with reference to the historical figures regarding the Funding Arrangement).

Given that the Funding Arrangement was on normal commercial terms and each of the applicable percentage ratios (other than the profits ratio) of the amount under the Funding Arrangement for the period from the Date of Listing up to 31 December 2010 was less than 5%, the Funding Arrangement was only subject to the reporting and announcement requirements under Rule 14A.66 of the Listing Rules and the annual review requirements as set out in Rules 14A.37 to 14A.40. As no interest/income was or would be charged on the Funding Arrangement, the revenue test was not applicable.

Pursuant to Rule 14A.42(3) of the Listing Rules, regarding the Funding Arrangement that may continue starting 1 January 2011, as such Funding Arrangement would be on normal commercial terms and the amount of Funding Arrangement paid by Hainan Sihuan Co., Ltd. to KBP BioSciences Co., Ltd. would be made in proportion to its equity interest in KBP BioSciences Co., Ltd., the Funding Arrangement starting from 1 January 2011 would be exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(3) of the Listing Rules.

The Directors, including the independent non-executive Directors, confirm that the terms of the Funding Arrangement are entered into in the ordinary and usual course of business, on normal commercial terms, are determined on an arm's-length basis and are fair and reasonable and in the interests of the shareholders of the Company as a whole. In particular, the Directors consider that the Funding Arrangement is on normal commercial terms (as defined under Rule 14A.10 the Listing Rules), both (a) historically until the end of 2010 where the Funding Arrangement had been and would be fully-funded by Hainan Sihuan Co., Ltd. and (b) from 1 January 2011 when Hainan Sihuan Co., Ltd. would be contributing to the Funding Arrangement in the proportion of its shareholding in KBP BioSciences Co., Ltd., for the reason that if KBP BioSciences Co., Ltd. were to obtain financial assistance in the form of a loan for the purpose of its working capital from parties other than the Group, it is quite unlikely that KBP BioSciences Co., Ltd. would be able to obtain any loan interest-free as it is currently arranged under the Funding Arrangement, and the shareholders of KBP BioSciences Co., Ltd. (which includes Hainan Sihuan) may be required to provide a guarantee for such loan. Hence, we believe that the terms of the Funding Arrangement are no less favorable than KBP BioSciences Co., Ltd. would have been able to obtain from independent third parties and are therefore on normal commercial terms. As KBP Biosciences Co., Ltd. is a subsidiary of the Company and is not currently generating income, funding assistance from other companies within the Group can potentially assist KBP Biosciences Co., Ltd. with developing its operations and generating income in the future that can benefit the Group as a whole.

As disclosed in the Prospectus, we had applied to the Stock Exchange for, and the Stock Exchange had granted a waiver from strict compliance with the announcement requirements under Rule 14A.66 of the Listing Rules in connection with the Funding Arrangement that would continue for the period from the Date of Listing up to 31 December 2010.

In respect of the Funding Arrangement which constituted the Company's continuing connected transaction which is subject to annual review requirements as described in Rules 14A.37 to 14A.40 of the Listing Rules, all the Independent Non-executive Directors of the Company have reviewed the said transaction and confirmed that the said transaction has been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction 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 auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed in paragraph (3) above in accordace with Listing Rule 14A.38 of the Listing Rules.

A copy of the auditor's letter on the continuing connected transactions of the Group for the period from the date of Listing up to 31 December 2010 has been provided by the Company to The Stock Exchange of Hong Kong Limited.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 28 October 2010 and 29 October 2010, the Company allotted 1,437,500,000 ordinary shares at a price of HK$4.60 through international placing and public offer.

The net proceeds from shares offered under international placing and public offer, after deducting professional fees and all related expenses, were approximately HK$6,340.7 million.

As at 31 December 2010, all proceeds have been applied in accordance with the plans disclosed in the Prospectus.

DIRECTORS

The Directors of the Company during the year ended 31 December 2010 and up to the date of this report were as follows:

Executive Directors

Dr. Che Fengsheng *(Chairman and CEO)*
Dr. Guo Weicheng *(Deputy Chairman)*
Mr. Meng Xianhui *(Deputy General Manager)*

Non-executive Directors

Dr. Zhang Jionglong
Mr. Homer Sun
Mr. Eddy Huang

Independent non-executive Directors

Mr. Patrick Sun
Mr. Bai Huiliang
Mr. Xu Kangsen

The biographical details of the Directors and senior management are set out under the Section "Biographical Details of Directors and Senior Management" of this Annual Report.

Dr. Che Fengsheng, Dr. Guo Weicheng, Mr. Meng Xianhui, Dr. Zhang Jionglong, Mr. Homer Sun, Mr. Eddy Huang, Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen shall retire from office. Being eligible, all Directors except for Mr. Homer Sun and Mr. Eddy Huang will offer themselves for re-election of the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of Dr. Che Fengsheng, Dr. Guo Weicheng and Mr. Meng Xianhui, being the executive Directors, entered into a service contract with the Company on 8 October 2010 for a term of three years commencing from the Listing Date, subject to termination before expiry by either party giving not less than three months' notice in writing to the other, provided that such termination shall not occur during the first 12 months of the contract. Under these service contracts, each of Dr. Che, Dr. Guo and Mr. Meng will receive a monthly salary (including any director's fees) of RMB100,000, RMB50,000 and RMB25,000, respectively (such annual salary is subject to annual review by the Board and the remuneration committee) and a discretionary bonus as may be decided by our Board and the remuneration committee at their discretion, having regard to the performance of the relevant executive Director. Such executive Director shall abstain from voting, and not be counted in the quorum, in respect of any resolution of our Board approving the determination of the salary, bonus and other benefits payable to him.

Each of Dr. Zhang Jionglong, Mr. Homer Sun and Mr. Eddy Huang, being the non-executive Directors, entered into a letter of appointment with the Company on 8 October 2010, 8 October 2010 and 9 October 2010, respectively. Each letter of appointment is for an initial term of one year commencing from the Listing Date, and shall continue thereafter unless terminated by either party giving at least three months' notice in writing. The non-executive Directors will not receive any remuneration from the Company.

Each of Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen, being the independent non-executive Directors, entered into a letter of appointment with the Company on 8 October 2010, 8 October 2010 and 5 October 2010, respectively. Each letter of appointment is for an initial term of one year commencing from the Listing Date, and shall continue thereafter unless terminated by either party giving at least three months' notice in writing. The annual fee for Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen are HK$300,000, RMB240,000 and RMB240,000 respectively.

Saved as disclosed in this annual report, there is no service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

During 2010, no Directors or their respective associates (as defined in the Listing Rules are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Furthermore, save as disclosed in the section headed "Continuing Connected Transactions" above, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any 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 under 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"):

(i) Directors' interests in Shares

Name of Director	Nature of Interest/Capacity	Total Number of Shares	Approximate percentage of Shareholding
Dr. Che Fengsheng (Note 1)	Beneficial owner 60,000,000 Shares Interest in a controlled corporation 3,255,000,000 Shares Settler of a trust 33,750,000 Shares	3,348,750,000 (Long position)	64.55%
Dr. Guo Weicheng	Beneficial owner	26,250,000 (Long position)	0.51%

Note:

(1) Dr. Che Fengsheng is the beneficial owner of 51% of the issued share capital of Plenty Gold Enterprise Limited ("Plenty Gold") as well as one of the settlers of the trust for which Sihuan Management (PTC) Limited ("Trustee Co") is trustee, and is deemed to be interested in the 3,255,000,000 Shares held by Plenty Gold in the Company. Since Plenty Gold is the sole shareholder of Trustee Co and that Dr. Che Fengsheng is one of the settlers of the trust assets (being Shares in the Company) held by Trustee Co, he is also deemed to be interested in the 33,750,000 Shares held by Trustee Co. Dr. Che Fengsheng also directly holds 60,000,000 Shares in the Company.

(ii) Directors' interest in the shares of associated corporations

Name of Associated Corporation	Name of Director	Nature of Interest/Capacity	Number of Shares	Approximate percentage of Shareholding
Plenty Gold	Dr. Che Fengsheng	Beneficial interest	3,825,000	51%
Plenty Gold	Dr. Guo Weicheng	Beneficial interest	1,875,000	25%
Plenty Gold	Mr. Meng Xianhui	Beneficial interest	825,000	11%
Plenty Gold	Dr. Zhang Jionglong	Beneficial interest	760,714	10.14%

Save as disclosed above, none of the Directors, chief executive and their associates had any interests or short position in the share, 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 to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she/it was deemed or taken to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive or their respective spouse or children under 18 to acquire beneficial interests by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the following shareholders, other than the Directors or chief executive of the Company, which were recorded in the register required to be kept by the Company under Section 336 of the SFO, had interests of 5% or more (including short positions) in the issued share capital, underlying shares or debentures of the Company:

Name of Shareholder	Nature of Interest/Capacity	Total Number of Shares (Note 3)	Approximate percentage of Shareholding
Plenty Gold (Note 1)	Beneficial owner 3,255,000,000 Shares Settler of a trust 33,750,000 Shares	3,288,750,000 (L)	63.39%
MSPEA Pharma Holdings B.V. (Note 2)	Beneficial owner	375,000,000 (L)	7.23%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd (Note 2)	Interest in a controlled corporation	375,000,000 (L)	7.23%
Morgan Stanley Private Equity Asia III, Inc. (Note 2)	Interest in a controlled corporation	375,000,000 (L)	7.23%
Morgan Stanley Private Equity Asia III, L.L.C (Note 2)	Interest in a controlled corporation	375,000,000 (L)	7.23%
Morgan Stanley Private Equity Asia III, L.P. (Note 2)	Interest in a controlled corporation	375,000,000 (L)	7.23%
MSPEA III Holdings Cooperatief U.A. (Note 2)	Interest in a controlled corporation	375,000,000 (L)	7.23%

Notes:

(1) Plenty Gold directly holds 3,255,000,000 Shares in the Company. It is also the sole shareholder of Trustee Co which holds 33,750,000 Shares in the Company and is deemed to be interested in the 33,750,000 Shares held by Trustee Co.

(2) MSPEA Pharma Holdings B.V. ("MSPEA Pharma BV") is a private limited liability company established under Dutch law which is wholly-owned by MSPEA III Holdings Cooperatiet U.A. ("MSPEA III Coop"). MSPEA III Coop is a cooperative established under Dutch law and is wholly-owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited ("MSPEA III Cayman"). MSPEA III Cayman is an exempted company incorporated in Cayman Islands with limited liability and is controlled by Morgan Stanley Private Equity Asia III, L.P. ("MSPEA III"), a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA III is Morgan Stanley Private Equity Asia III, L.P. ("MSPEA III GP"), the managing member of which is Morgan Stanley Private Equity Asia III Inc. ("MSPEA III Inc.") an investment advisor registered with the U.S. Securities and Exchange Commission. Each of MSPEA III Coop, MSPEA III Cayman, MSPEA III, MSPEA III GP and MSPEA III Inc. is deemed to be interested in the Shares held by MSPEA Pharma BV.

(3) The letter "L" denotes the shareholder's long position in such Shares.

Save as disclosed above, according to the records in the register required to be kept by the Company under section 336 of the SFO, no other parties had an interest or a short position in the Shares or underlying shares of the Company recorded under section 336 of the SFO as at 31 December 2010.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 32 to 36 of this Annual Report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report as required under the Listing Rules.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as the auditor of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30 May 2011 to 3 June 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting, all duly completed transfer forms together with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 27 May 2011.

By Order of the Board
Che Fengsheng
Chairman of the Board

16 March 2011

羅兵咸永道會計師事務所

PricewaterhouseCoopers
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Independent Auditor's Report

To the shareholders of Sihuan Pharmaceutical Holdings Group Ltd.

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sihuan Pharmaceutical Holdings Group Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 108, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2011

Consolidated Balance Sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	6	**253,153**	162,036
Intangible assets	7	**153,469**	137,461
Land use rights	8	**17,714**	18,843
Held-to-maturity financial assets	10	**36,252**	—
Deferred income tax assets	18	**41,020**	58,144
Other non-current assets	11	**236,199**	—
		737,807	376,484
Current assets			
Inventories	12	**53,346**	42,967
Trade and other receivables	13	**259,920**	141,132
Cash and cash equivalents	14	**5,851,379**	612,859
		6,164,645	796,958
Total assets		**6,902,452**	1,173,442
Equity and liabilities			
Equity attributable to equity owners of the Company			
Share capital	15	**44,526**	69,262
Share premium	15	**5,608,947**	182,909
Other reserves	16	**111,876**	109,585
Retained earnings			
— Proposed final dividend	25	**—**	—
— Others	16	**891,582**	545,747
		6,656,931	907,503
Non-controlling interests		**2,598**	16,684
Total equity		**6,659,529**	924,187

Consolidated Balance Sheet

	Note	As at 31 December 2010 RMB'000	 2009 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	18	**9,526**	29,995
Current liabilities			
Trade and other payables	17	**138,907**	120,391
Current income tax liabilities		**94,490**	98,869
		233,397	219,260
Total liabilities		**242,923**	249,255
Total equity and liabilities		**6,902,452**	1,173,442
Net current assets		**5,931,248**	577,698
Total assets less current liabilities		**6,669,055**	954,182

The notes on pages 57 to 108 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 108 were approved by the Board of Directors on 16 March 2011 and were signed on its behalf.

Che Fengsheng
Director

Guo Weicheng
Director

Balance Sheet

	Note	As at 31 December **2010** **RMB'000**	 2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**20**	—
Investments in subsidiaries	9	**208,617**	208,617
Held-to-maturity financial assets	10	**36,252**	—
		244,889	208,617
Current assets			
Trade and other receivables	13	**410,976**	35,049
Cash and cash equivalents	14	**5,015,417**	26,258
		5,426,393	61,307
Total assets		**5,671,282**	269,924
EQUITY			
Share capital	15	**44,526**	69,262
Share premium	15	**5,608,947**	182,909
Accumulated losses			
— Proposed final dividend	25	**—**	—
— Others	16	**(17,067)**	(4,554)
Total equity		**5,636,406**	247,617
LIABILITIES			
Current liabilities			
Trade and other payables	17	**34,876**	22,307
Total liabilities		**34,876**	22,307
Total equity and liabilities		**5,671,282**	269,924
Net current assets		**5,391,517**	39,000
Total assets less current liabilities		**5,636,406**	247,617

The notes on pages 57 to 108 are an integral part of these financial statements.

The financial statements on pages 51 to 108 were approved by the Board of Directors on 16 March 2011 and were signed on its behalf.

Che Fengsheng
Director

Guo Weicheng
Director

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Revenue	19	**1,036,881**	708,907
Cost of sales	20	**(292,138)**	(191,915)
Gross profit		**744,743**	516,992
Other gains/(losses) — net	19	**54,052**	(16,348)
Distribution costs	20	**(56,654)**	(48,810)
Administrative expenses	20	**(128,828)**	(78,809)
Operating profit		**613,313**	373,025
Finance income	22	**23,629**	6,236
Finance costs	22	**(1,859)**	(592)
Finance income — net		**21,770**	5,644
Share of profit of an associated company		**—**	2,357
Profit before income tax		**635,083**	381,026
Income tax expense	23	**(128,175)**	(67,370)
Profit and total comprehensive income for the year		**506,908**	313,656
Profit attributable to:			
Equity owners of the Company		**522,065**	326,316
Non-controlling interests		**(15,157)**	(12,660)
		506,908	313,656
Earnings per share attributable to equity owners of the Company			
— Basic and diluted earnings per share (RMB cents)	24	**13.03**	8.70
Dividends	25	**173,939**	48,471

The notes on pages 57 to 108 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to equity owners of the Company					
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2009		69,262	182,909	75,255	373,790	14,644	715,860
Comprehensive income							
Profit/(loss) for the year		—	—	—	326,316	(12,660)	313,656
Transactions with owners							
Establishment of a subsidiary		—	—	—	—	14,700	14,700
Dividends	25	—	—	—	(120,029)	—	(120,029)
Transfer to other reserves	16	—	—	34,330	(34,330)	—	—
Balance as at 31 December 2009		69,262	182,909	109,585	545,747	16,684	924,187
Balance as at 1 January 2010		69,262	182,909	109,585	545,747	16,684	924,187
Comprehensive income							
Profit/(loss) for the year		—	—	—	522,065	(15,157)	506,908
Transactions with owners							
Conversion of shares	15	(65,212)	65,212	—	—	—	—
Capitalisation of share premium	15	28,262	(28,262)	—	—	—	—
Issue of new ordinary shares	15	12,214	5,606,259	—	—	—	5,618,473
Share issue cost	15	—	(217,171)	—	—	—	(217,171)
Acquisition of a subsidiary	28	—	—	—	—	1,071	1,071
Dividends	25	—	—	—	(173,939)	—	(173,939)
Transfer to other reserves	16	—	—	2,291	(2,291)	—	—
Balance as at 31 December 2010		44,526	5,608,947	111,876	891,582	2,598	6,659,529

The notes on pages 57 to 108 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2010 RMB'000	 2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	26	**516,000**	438,938
Income tax paid		**(135,899)**	(53,290)
Net cash generated from operating activities		**380,101**	385,648
Cash flows from investing activities			
Proceeds from disposal of an associated company		**32,000**	69,700
Prepayments for acquisition of subsidiaries	11	**(236,199)**	—
Acquisition of a subsidiary, net of cash acquired	28	**19**	(6,000)
Contribution by non-controlling shareholders for establishment of a new subsidiary		**—**	14,700
Proceeds from disposal of property, plant and equipment	26	**54**	136
Purchase of held-to-maturity financial assets	10	**(36,254)**	—
Purchase of property, plant and equipment	6	**(107,774)**	(56,677)
Increase in intangible assets	7	**(35,078)**	(8,295)
Payment for land use rights	8	**—**	(3,738)
Interest received		**19,550**	6,236
Net cash (used in)/generated from investing activities		**(363,682)**	16,062
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of issue cost		**5,396,040**	—
Dividends paid	25	**(173,939)**	(120,029)
Net cash generated from/(used in) financing activities		**5,222,101**	(120,029)
Net increase in cash and cash equivalents		**5,238,520**	281,681
Cash and cash equivalents at beginning of year		**612,859**	331,178
Cash and cash equivalents at end of year	14	**5,851,379**	612,859

The notes on pages 57 to 108 are an integral part of these financial statements.

1. GENERAL INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. (the "Company") is incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together, the "Group") are manufacturing and sale of pharmaceutical products in the People's Republic of China (the "PRC").

The ultimate holding company of the Company is Plenty Gold Enterprises Limited ("Plenty Gold"), a limited liability company incorporated under the laws of the British Virgin Islands on 10 March 2004.

The address of the Company's registered office is Clarendon House, 2 Church Street, P.O. Box HM 1022, Hamilton HM DX, Bermuda. The address of the principal place of business of the Group is 26th & 27th Floor, Sky City International Building, No. 85, Binhai Avenue, Haikou, Hainan, 570105, PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on 28 October 2010.

These financial statements are presented in units of Renminbi ("RMB") thousand Yuan, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 16 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the 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 Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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)*

2.1.1 Changes in accounting policies and disclosures

(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.

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 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 adoption of the new standards did not have material impact to the Group's financial statements.

- IAS 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 the statement of comprehensive income. IAS 27 (revised) has had no impact on the current year, 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.

- IAS 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 IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The adoption of the new standard did not have material impact to the Group's financial statements.

- IAS 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 IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The adoption of the new standard did not have material impact to the Group's financial statements.

- IAS 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.

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures (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)

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity 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). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures *(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)

- IFRIC 16, Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- IAS 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 noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 — Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

(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

The Group's and parent entity's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group did not early adopt IFRS 9 during the year ended 31 December 2010.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group and the parent entity will need to disclose any transactions between its subsidiaries and its associates.

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted.

  The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures *(continued)*

(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 (continued)

- IFRIC — Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the parent entity's financial statements.

- 'Prepayments of a minimum funding requirement' (amendments to IFRIC — Int 14). The amendments correct an unintended consequence of IFRIC — Int 14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC — Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

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

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 deconsolidated 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.

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 excess of the consideration transferred for 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 Group's share 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 statement of comprehensive income (Note 2.6).

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

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

2.2 Consolidation *(continued)*

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interest 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.

(c) Associates

Associates are all entities over which the Group has significant influence, but not control, and generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. The Group's investments in associates are accounted for in the financial statements using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.8 for the impairment of non-financial assets including goodwill.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the statement of comprehensive income and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising from investments in associated companies are recognised in the statement of comprehensive income.

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

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 board of directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and 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 or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance (costs)/ income — net'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains/(losses) — net'.

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. 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 to statement of comprehensive income during the financial period in which they are incurred.

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

	Estimated useful lives
Buildings	10–35 years
Production and electronic equipment	3–10 years
Office equipment	3–10 years
Motor vehicles	4–10 years

Construction in progress represents properties and plant under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until the relevant assets are completed and put into operational use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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/(losses) — net' in the statement of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

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

2.6 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 annually for impairment and carried at cost less accumulated impairment losses. 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 according to operating segment.

(b) Research and development

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities (relating to the design and testing of new or improved products) is capitalised under the category of "product development in progress" if the product or process is technically and commercially feasible, the Group has sufficient resources and the intention to complete the development, and the cost can be reliably measured. Upon the commencement of the commercial production of a product, the expenditure on development activities is transferred to "deferred development costs" and amortised on a straight-line basis over the period of its expected benefit. Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

(ii) Deferred development costs that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses. The value in use model is used for the impairment assessment by the management of the Group.

(iii) Subsequent expenditure on development activities after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(iv) Amortisation of deferred development costs is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of 5 to 10 years.

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

2.6 Intangible assets *(continued)*

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of 5 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in the statement of comprehensive income when the changes arise.

2.7 Land use right

Land use right is up-front payments to acquire long-term interests in the usage of land. It is stated at cost and charged to the statement of comprehensive income over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested 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 the 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 suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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: loans and receivables and held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.12 and 2.13).

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities and the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except those with maturities less than 12 months from the end of the reporting period; these are classified as current assets.

2.9.2 Recognition and measurement

Held-to-maturity financial assets are initially recognised at fair value plus transaction cost. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

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

2.10 Impairment of financial assets

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;
- becoming 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; or

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

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

2.10 Impairment of financial assets *(continued)*

The Group first assesses whether objective evidence of impairment exists.

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.

2.11 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 progress comprises research and development costs, 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.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold 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.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

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

2.14 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.

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables 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.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income or directly 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 countries where the Company's subsidiaries and associate 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the 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 and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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 only 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 and associate, except for deferred income tax liability 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 be reversed in the foreseeable future.

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

2.16 Current and deferred income tax *(continued)*

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

The Group participates in the retirement insurance and medical insurance scheme organised by the local social security bureau pursuant to the relevant provisions. The Group is required to make monthly contribution in respect of the above insurance scheme to the local social security bureau based on the monthly salaries of its employees. The Group has no further liabilities other than the above defined contribution. The Group's contributions under the scheme are charged to the statement of comprehensive income.

2.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

Government grants are recognised in the statement of comprehensive income as part of other gain.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods 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 when specific criteria have been met for each of the Group's activities as described below. 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)*

2.19 Revenue recognition *(continued)*

(a) Sales of goods

The Group manufactures and sells a range of pharmaceutical products in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales of services

The Group provides processing service for subcontracting manufacturing and packaging services to third parties. Service income is recognised when the service is rendered.

(c) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

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

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved. Final dividends are approved by the Company's shareholders and interim dividends are approved by the Company's directors.

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, price risk, cash flow interest rate risk and fair value interest rate 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 exchange risk

The functional currency of the Company and its subsidiaries is RMB. All of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are mainly denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The main foreign currency denominated assets and liabilities of the Group were certain cash and cash equivalents (Note 14), other receivables and other payables which were denominated in Singapore Dollars ("SGD"), United States Dollars ("USD") and Hong Kong Dollars ("HKD"). In the opinion of the directors, the Group does not have significant exposure to foreign exchange risk.

The Group currently does not have a foreign currency hedge policy.

As at 31 December 2010, if the currency had weakened/strengthened by 10% against USD with all other variables held constant, post-tax profit for the year ended 31 December 2010 would have been approximately RMB932,000 (2009: RMB1,390,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and cash equivalents, other receivables and other payables.

As at 31 December 2010, if the currency had weakened/strengthened by 10% against HKD with all other variables held constant, post-tax profit for the year ended 31 December 2010 would have been approximately RMB15,972,000 (2009: RMB80,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash and cash equivalents, other receivables and other payables.

As at 31 December 2010, if the currency had weakened/strengthened by 10% against SGD with all other variables held constant, post-tax profit for the year ended 31 December 2010 would have been approximately RMB686,000 (2009: RMB1,160,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of SGD-denominated cash and cash equivalents and other receivables.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Price risk

The Group is not exposed to any significant equity market risk, nor exposed to any commodity price risk.

(iii) Cash flow and fair value interest rate risk

The Group has interest-bearing assets including held-to-maturity financial assets and cash and cash equivalents, details of which have been disclosed in Notes 10 and 14.

Apart from held-to-maturity financial assets and cash and cash equivalents, the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Fluctuation of market rates does not have significant impact to the operating cash flows.

The Group have not interest bearing liabilities. Other financial assets do not have material interest rate risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, held-to-maturity financial assets and other receivables.

All the cash equivalents and bank deposits are placed with state-owned financial institutions in the PRC and high-quality international financial institutions outside the PRC. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In relation to trade receivables, the Group has no significant concentrations of credit risk and has policies in place to ensure that certain cash advance has been received upon the agreement of the related sales orders with customers. For those with credit period granted, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. It also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. The Group regularly performs ageing analysis, assesses credit risks and estimates the recoverability of groups of trade receivables bearing similar credit risk based on historical data and cash collection history.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

Held-to-maturity financial assets are RMB straight bonds placed with high-quality international financial institutions. There was no recent history of default and the directors are of the opinion that the credit risk related to the investment is low.

In relation to other receivables, the credit quality of the debtors is assessed by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also regularly review the recoverability of these other receivables and follow up the disputes or amounts overdue, if any. The directors are of the opinion that the default by counterparties is low.

No other financial assets bear a significant exposure to credit risk.

(c) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash. The Group maintains sufficient cash balances to provide flexibility in meeting its day to day funding requirements.

The Group had net current assets of RMB5,931,248,000, which included cash and cash equivalents of RMB5,851,379,000 as at 31 December 2010. The directors are of the opinion that the Group maintains an adequate liquidity reserve.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a gross basis 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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Group Less than 1 year RMB'000	**Company Less than 1 year** RMB'000
At 31 December 2010		
Trade and other payables	102,114	34,876
At 31 December 2009		
Trade and other payables	70,856	22,307

3. FINANCIAL RISK MANAGEMENT *(continued)*

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 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 equity or sell assets to reduce debt.

The Group has sufficient cash and did not have any borrowing as at 31 December 2010. The directors are of the opinion that the Group does not have significant capital risk.

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as estimated discounted cash flows. The Group uses its judgment to select a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date.

The carrying value less impairment provision of trade and other receivables, held-to-maturity financial assets and trade and other payables are a reasonable approximation of their fair values. The fair value of financial assets and 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.

The Group did not have significant financial instruments that were measured at fair value as at 31 December 2010.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements 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.

(a) Deferred development costs and product development in progress

The Group's management determines the estimated future cash flows of each pharmaceutical patent or licence in capitalisation of development costs. These estimates are based on projected product lifecycles experienced in the pharmaceutical industry.

It could change significantly as a result of medicine innovations and competitor actions in response to industry cycles. Management will recognise impairment loss on the capitalised development costs when future cash flows are less than expectation and fall below the amount of related development costs.

If the estimated future cash flows had been 10% lower than management's estimates as at 31 December 2010, the Group would have recognised an impairment loss on the development costs of approximately RMB173,000 (2009: RMB530,000) and would need to reduce the carrying value of development costs by approximately RMB173,000 (2009: RMB530,000).

(b) Goodwill impairment test

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

The carrying amounts of goodwill as at 31 December 2010 were RMB15,933,000 (2009: RMB13,990,000). Details of the estimates used to calculate the recoverable amounts are disclosed in Note 7.

(c) Useful lives and residual value of property, plant and equipment

The estimate of useful lives and residual value of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles. Management will increase the depreciation charge where useful lives and residual value are less than those previously estimated or it will write off or write down technically obsolete or non-strategic assets that have been abandoned.

(d) Deferred taxation

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different. Details of the deferred taxation are disclosed in Note 18.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the board of directors of the Company. The board of directors review 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 of directors considers the business from product perspective. The Group is engaged in only one business segment, the manufacturing and sale of pharmaceutical products.

6. PROPERTY, PLANT AND EQUIPMENT — THE GROUP

	Buildings	Production and electronic equipment	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009						
Cost	92,740	25,018	4,431	9,646	22,733	154,568
Accumulated depreciation	(24,368)	(9,087)	(1,738)	(2,088)	—	(37,281)
Net book amount	68,372	15,931	2,693	7,558	22,733	117,287
Year ended 31 December 2009						
Opening net book amount	68,372	15,931	2,693	7,558	22,733	117,287
Additions	31,069	6,849	1,317	1,548	15,894	56,677
Transfers between categories	—	—	874	—	(874)	—
Disposals	(21)	(185)	(28)	—	—	(234)
Depreciation charge	(6,458)	(3,398)	(922)	(916)	—	(11,694)
Closing net book amount	92,962	19,197	3,934	8,190	37,753	162,036
At 31 December 2009						
Cost	123,681	30,631	6,220	11,194	37,753	209,479
Accumulated depreciation	(30,719)	(11,434)	(2,286)	(3,004)	—	(47,443)
Net book amount	92,962	19,197	3,934	8,190	37,753	162,036
Year ended 31 December 2010						
Opening net book amount	**92,962**	**19,197**	**3,934**	**8,190**	**37,753**	**162,036**
Acquisition of a subsidiary (Note 28)	**—**	**10**	**—**	**—**	**—**	**10**
Additions	**4,861**	**21,149**	**1,627**	**2,447**	**77,690**	**107,774**
Transfers between categories	**37,139**	**927**	**—**	**—**	**(38,066)**	**—**
Disposals	**—**	**(149)**	**—**	**(45)**	**—**	**(194)**
Depreciation charge	**(8,611)**	**(5,079)**	**(1,015)**	**(1,768)**	**—**	**(16,473)**
Closing net book amount	**126,351**	**36,055**	**4,546**	**8,824**	**77,377**	**253,153**
At 31 December 2010						
Cost	**165,681**	**52,252**	**7,847**	**13,551**	**77,377**	**316,708**
Accumulated depreciation	**(39,330)**	**(16,197)**	**(3,301)**	**(4,727)**	**—**	**(63,555)**
Net book amount	**126,351**	**36,055**	**4,546**	**8,824**	**77,377**	**253,153**

6. PROPERTY, PLANT AND EQUIPMENT — THE GROUP *(continued)*

Depreciation charge of the Group was included in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Cost of sales	**3,966**	4,017
Distribution costs	**47**	23
Administrative expenses	**12,460**	7,654
	16,473	11,694

7. INTANGIBLE ASSETS — THE GROUP

	Goodwill	Customer relationship	Deferred development costs	Product development in progress	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009						
Cost	49,107	28,000	73,089	141,009	1,477	292,682
Accumulated amortisation	—	(7,000)	(35,802)	—	(754)	(43,556)
Impairment	—	—	(2,800)	(20,935)	—	(23,735)
Net book amount	49,107	21,000	34,487	120,074	723	225,391
Year ended 31 December 2009						
Opening net book amount	49,107	21,000	34,487	120,074	723	225,391
Additions	—	—	540	6,724	1,031	8,295
Transfer	—	—	1,965	(1,965)	—	—
Write-off	—	—	—	—	(238)	(238)
Impairment charge	(35,117)	—	1,737	(46,881)	—	(80,261)
Amortisation charge	—	(5,600)	(9,971)	—	(155)	(15,726)
Closing net book amount	13,990	15,400	28,758	77,952	1,361	137,461
At 31 December 2009						
Cost	49,107	28,000	75,594	145,768	2,253	300,722
Accumulated amortisation	—	(12,600)	(45,773)	—	(892)	(59,265)
Impairment	(35,117)	—	(1,063)	(67,816)	—	(103,996)
Net book amount	13,990	15,400	28,758	77,952	1,361	137,461
Year ended 31 December 2010						
Opening net book amount	**13,990**	**15,400**	**28,758**	**77,952**	**1,361**	**137,461**
Acquisition of subsidiaries (Note 28)	**1,943**	**—**	**—**	**—**	**—**	**1,943**
Additions	**—**	**—**	**10,500**	**23,938**	**640**	**35,078**
Transfer	**—**	**—**	**3,000**	**(3,000)**	**—**	**—**
Impairment charge	**—**	**—**	**—**	**(2,571)**	**—**	**(2,571)**
Amortisation charge	**—**	**(5,600)**	**(12,568)**	**—**	**(274)**	**(18,442)**
Closing net book amount	**15,933**	**9,800**	**29,690**	**96,319**	**1,727**	**153,469**
At 31 December 2010						
Cost	**51,050**	**28,000**	**89,094**	**166,706**	**2,893**	**337,743**
Accumulated amortisation	**—**	**(18,200)**	**(58,341)**	**—**	**(1,166)**	**(77,707)**
Impairment	**(35,117)**	**—**	**(1,063)**	**(70,387)**	**—**	**(106,567)**
Net book amount	**15,933**	**9,800**	**29,690**	**96,319**	**1,727**	**153,469**

7. INTANGIBLE ASSETS — THE GROUP *(continued)*

(a) Other intangible assets mainly comprise trademark, licenses and software.

(b) Amortisation charge of the Group was included in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Cost of sales	**12,568**	9,971
Administrative expenses	**5,874**	5,755
	18,442	15,726

(c) Goodwill is allocated to the Group's cash-generating units ("CGUs"). A summary of the goodwill allocation is presented below.

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Beijing Sihuan Pharmaceutical Co., Ltd. ("Beijing Sihuan")	**294**	294
Shenzhen Sihuan Pharmaceutical Co., Ltd. ("Shenzhen Sihuan") and Hainan Ao He Pharmaceutical Co., Ltd. ("Hainan Ao He")	**13,696**	13,696
Beijing Gao Duan Wei Ye Pharmaceutical Technical Co., Ltd.("Gao Duan Wei Ye")	**1,943**	—
	15,933	13,990

The recoverable amount of a 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 rates stated below. The growth rate does not exceed the long-term average growth rate for the pharmaceutical business in which the CGU operates.

7. INTANGIBLE ASSETS — THE GROUP *(continued)*

(c) *(continued)*

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

	Shenzhen Sihuan and Hainan Ao He	**Beijing Sihuan**	**Gao Duan Wei Ye**
As at 31 December 2009			
Revenue growth rate	45%	40%	N/A
Gross profit margin	37%	12%	N/A
Discount rate	15%	15%	N/A
As at 31 December 2010			
Revenue growth rate	**32%**	**37%**	**20%**
Gross profit margin	**37%**	**12%**	**23%**
Discount rate	**15%**	**15%**	**15%**

These assumptions have been used for the analysis of each CGU within the operating segment.

Management determined budgeted gross profit margins based on past performance and their expectations of market development. The revenue average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant subsidiaries.

8. LAND USE RIGHTS — THE GROUP

	RMB'000
At 1 January 2009	
Cost	18,582
Accumulated amortisation	(2,348)
Net book amount	16,234
Year ended 31 December 2009	
Opening net book amount	16,234
Addition	3,738
Amortisation charge	(1,129)
Closing net book amount	18,843
At 31 December 2009	
Cost	22,320
Accumulated amortisation	(3,477)
Net book amount	18,843
Year ended 31 December 2010	
Opening net book amount	**18,843**
Amortisation charge	**(1,129)**
Closing net book amount	**17,714**
At 31 December 2010	
Cost	**22,320**
Accumulated amortisation	**(4,606)**
Net book amount	**17,714**

The land use rights represent land use rights in the PRC with a lease period of 50 years.

9. INVESTMENTS IN SUBSIDIARIES — THE COMPANY

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**208,617**	208,617

The following is a list of the principal subsidiaries at 31 December 2010, all of which are limited liability companies.

Name	Principal activities	Place of business/ incorporation	Registered capital	Interest held (%)
Directly held				
耀忠國際(香港)有限公司 Sun Moral International Co. Ltd ("Sun Moral")	Investment holding	Hong Kong	HK$10,000	100
Indirectly held				
海南四環醫藥有限公司 Hainan Sihuan Pharmaceutical Co., Ltd. ("Hainan Sihuan")	Marketing of pharmaceutical products	PRC	RMB200,000,000	100
北京四環製藥有限公司 Beijing Sihuan	Manufacturing of pharmaceutical products	PRC	RMB30,353,000	100
海南四環醫藥信息有限公司 Hainan Sihuan Pharmaceutical Information Co., Ltd. ("Hainan Sihuan Information")	Provision of information support services	PRC	RMB1,000,000	100
海南四環醫藥科技有限公司 Hainan Sihuan Technology Pharmaceutical Co., Ltd. ("Hainan Sihuan Technology")	Cooperation of projects with other research companies	PRC	RMB1,000,000	100
海南四環心腦血管藥物研究院 Hainan Sihuan Cardio-cerebral Vascular Drugs Research Institute Co., Ltd. ("Hainan Sihuan CVD Research")	Provision of research and development services	PRC	RMB6,000,000	100

9. INVESTMENTS IN SUBSIDIARIES — THE COMPANY *(continued)*

Name	Principal activities	Place of business/ incorporation	Registered capital	Interest held (%)
深圳四環醫藥有限公司 Shenzhen Sihuan	Marketing of pharmaceutical products	PRC	RMB3,000,000	100
山東軒竹製藥科技有限公司 KBP BioSciences Co., Ltd. ("KBP BioSciences")	Research and development of pharmaceutical products	PRC	RMB50,000,000	60
海南澳合醫藥有限公司 Hainan Ao He	Trading of pharmaceutical products	PRC	RMB2,000,000	100
廊坊四環高博製藥有限公司 Langfang Sihuan Gao Bo Pharmaceutical Co., Ltd. ("Langfang Sihuan")	Manufacturing of pharmaceutical materials	PRC	RMB30,000,000	51
北京地澳林醫藥有限公司 Beijing Di Ao Lin Pharmaceutical Technical Co., Ltd. ("Beijing Di Ao Lin")	Registration and application of products	PRC	RMB3,000,000	60
北京澳合藥物研究院有限公司 Beijing Ao He Research Institute Co., Ltd. ("Beijing Ao He Research")	Provision of research and development services	PRC	RMB3,600,000	100
北京高端偉業醫藥科技有限公司 Gao Duan Wei Ye	Cooperation with other research companies	PRC	RMB5,000,000	60
本溪四環醫藥有限公司 Benxi Sihuan Pharmaceutical Co., Ltd. ("Benxi Sihuan")	Project preparation for manufacturing of pharmaceutical products	PRC	HK$200,000,000	100

The names of certain companies referred to in the financial statements represent management's translation of their Chinese names into English as no English names have been registered or are available for them.

10. HELD-TO-MATURITY FINANCIAL ASSETS — THE GROUP AND THE COMPANY

	2010 RMB'000	2009 RMB'000
Financial bonds:		
— Bonds with fixed interest of 2.70% and maturity date of 11 November 2013	17,925	—
— Bonds with fixed interest of 1.95% and maturity date of 2 December 2012	18,327	—
	36,252	—

Held-to-maturity financial assets are all denominated in RMB.

The movement in held-to-maturity financial assets is summarised as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	—	—
Additions	36,254	—
Amortisation by effective rate	(2)	—
At 31 December	36,252	—
Less: non-current portion	(36,252)	—
Current portion	—	—

The directors consider that the carrying amount of the held-to-maturity financial assets approximate their fair values as at 31 December 2010.

The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity financial assets.

11. OTHER NON-CURRENT ASSETS — THE GROUP

These amounts for the Group as at 31 December 2010 represented prepaid consideration for the acquisition of Benxi Leilong Pharmaceutical Co., Ltd. ("Benxi Leilong") and Dupromise Holdings Limited ("Dupromise") of RMB36,199,000 and RMB200,000,000, respectively. Details of these acquisitions are disclosed in Note 30 to these financial statements.

12. INVENTORIES — THE GROUP

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Raw materials	**23,278**	17,876
Work in progress	**6,932**	4,235
Finished goods	**23,136**	20,856
	53,346	42,967

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB260,627,000 (2009: RMB170,885,000).

13. TRADE AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables — third parties	**27,763**	2,542	**—**	—
Less: provision for impairment of trade receivables	**—**	(138)	**—**	—
Trade receivables — net	**27,763**	2,404	**—**	—
Prepayments to suppliers	**105,880**	63,878	**—**	—
Deposits and other receivables	**126,277**	42,850	**6,220**	379
Amount receivable from disposal of an associated company	**—**	32,000	**—**	—
Amounts due from subsidiaries	**—**	—	**381,745**	34,670
Dividend receivable	**—**	—	**23,011**	—
	259,920	141,132	**410,976**	35,049

The amounts due from subsidiaries of the Company are interest-free, unsecured and have no fixed terms of repayment.

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

The credit quality of financial assets that are neither past due nor impaired are assessed by making reference to historical information about default rates, reputation, liquidity and other financial information of the counterparties.

13. TRADE AND OTHER RECEIVABLES *(continued)*

The Group's credit terms granted to customers range from one to three months. Trade receivables that are less than 12 months are not considered impaired. The ageing analysis of trade receivables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 3 months	**27,438**	2,160
3 to 6 months	**122**	56
6 to 12 months	**182**	113
More than 12 months	**21**	213
	27,763	2,542

As at 31 December 2010, trade receivables of RMB325,000 (2009: RMB244,000) were past due but not impaired. These relate to a number of independent wholesalers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
3 to 6 months	**122**	56
6 to 12 months	**182**	113
More than 12 months	**21**	75
	325	244

As at 31 December 2010, no trade receivables (2009: RMB138,000) were impaired and no provision (2009: RMB138,000) was made. The aging of these receivables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
More than 12 months	**–**	138

13. TRADE AND OTHER RECEIVABLES *(continued)*

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
RMB	**254,975**	141,132	**239,683**	35,049
HKD	**3,707**	—	**170,055**	—
USD	**1,209**	—	**1,209**	—
SGD	**25**	—	**25**	—
CAD	**4**	—	**4**	—
	259,920	141,132	**410,976**	35,049

Movement on the Group's provision for impairment of trade receivables is as follows:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
At 1 January	**138**	138
Write-off	**(138)**	—
At 31 December	**—**	138

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

Trade and other receivables, other than trade receivables and amount receivable from disposal of an associated company, do not contain impaired assets, have no fixed repayment term and bear no interest.

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

14. CASH AND CASH EQUIVALENTS

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand	**97**	73	**—**	—
Bank deposits	**5,816,282**	572,786	**5,015,417**	26,258
Other cash and cash equivalents	**35,000**	40,000	**—**	—
	5,851,379	612,859	**5,015,417**	26,258

As at 31 December 2010, other cash and cash equivalents represent highly liquid investments placed with a PRC bank which have a maturity of 4 days (2009: 1 day). The effective annual interest rate of these investments as at 31 December 2010 was 4.00% (2009: 1.85%).

The effective annual interest rate of bank deposits as at 31 December 2010 was 1.61% (2009: 0.81%).

Cash and cash equivalents are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**5,663,309**	586,555	**4,998,718**	—
SGD	**6,946**	11,648	**6,924**	11,602
USD	**9,774**	13,859	**9,774**	13,859
HKD	**171,350**	797	**1**	797
	5,851,379	612,859	**5,015,417**	26,258

15. SHARE CAPITAL AND SHARE PREMIUM — THE GROUP AND THE COMPANY

	Number of authorised ordinary shares	Number of issued and fully paid ordinary shares	Share capital	Share premium	Total
	'000	'000	RMB'000	RMB'000	RMB'000
As at 1 January 2009 and 31 December 2009 (US$0.02 per share)	600,000	470,000	69,262	182,909	252,171
Conversion of shares (a)	—	—	(65,212)	65,212	—
Increase of authorised ordinary shares (b)	9,400,000	—	—	—	—
Capitalisation of share premium (c)	—	3,280,000	28,262	(28,262)	—
Issue of new ordinary shares (d)	—	1,437,500	12,214	5,606,259	5,618,473
Share issue cost (e)	—	—	—	(217,171)	(217,171)
As at 31 December 2010 (HK$0.01 per share)	10,000,000	5,187,500	44,526	5,608,947	5,653,473

(a) The number of authorised ordinary shares of the Company as at 1 January 2009 and 31 December 2009 was 600,000,000 shares with a par value of US$0.02 each, of which 470,000,000 ordinary shares were issued and fully paid.

On 7 October 2010, shareholders' resolutions were passed to approve the conversion of the par value per share of authorised share capital from US$0.02 to HK$0.01. The 470,000,000 fully paid ordinary shares at par value of US$0.02 each was converted into 470,000,000 fully paid ordinary shares at par value of HK$0.01 each and the difference of the paid-in capital of RMB65,212,000 following the conversion was credited to share premium.

(b) Pursuant to the written resolution of shareholders passed on 8 October 2010, the authorised share capital of the Company was increased from HK$6,000,000 to HK$100,000,000 by the creation of 9,400,000,000 new ordinary shares.

(c) Pursuant to the written resolution of shareholders of the Company passed on 8 October 2010, 3,280,000,000 ordinary shares of the Company were issued at par value as fully paid in proportion to their then existing shareholdings in the Company. The amount was paid up in full by applying an amount of RMB28,262,000 standing to the credit of the share premium account of the Company.

(d) On 28 October 2010 and 29 October 2010, upon its listing on the Main Board of The Stock Exchange of Hong Kong Limited and related over-allotment option, the Company issued 1,250,000,000 new ordinary shares and 187,500,000 new ordinary shares at par value of HK$0.01 per share for cash consideration of HK$4.60 each respectively, and raised gross proceeds of approximately HK$6,612,500,000 (equivalent to RMB5,618,473,000).

(e) Share issue cost mainly included underwriting commission, lawyer's fees, reporting accountant's fee and other related costs. Incremental costs that were directly attributable to the issue of the new ordinary shares amounting to RMB217,171,000 was treated as a deduction from share premium. Other share issue costs which were not directly attributable to the issue of the new ordinary shares amounting to RMB14,283,000 were recognised as expenses in the statement of comprehensive income.

16. OTHER RESERVES AND RETAINED EARNINGS/(ACCUMULATED LOSSES) — THE GROUP AND THE COMPANY

Group

	Reserve fund RMB'000 (Note (a))	**Retained earnings** RMB'000
At 1 January 2009	75,255	373,790
Profit for the year	—	326,316
Dividends (Note 25)	—	(120,029)
Transfer to other reserves	34,330	(34,330)
At 31 December 2009 and 1 January 2010	109,585	545,747
Profit for the year	—	522,065
Dividends (Note 25)	—	(173,939)
Transfer to other reserves	2,291	(2,291)
At 31 December 2010	111,876	891,582

Company

	Year ended 31 December	
	2010 **RMB'000**	2009 RMB'000
(Accumulated losses)/retained earnings:		
At 1 January	**(4,554)**	24,283
Profit for the year	**161,426**	91,192
Dividends (Note 25)	**(173,939)**	(120,029)
At 31 December	**(17,067)**	(4,554)

(a) The Company's subsidiaries in the PRC are required to follow the laws and regulations of the PRC and their respective articles of association. These subsidiaries are required to allocate at least 10% of their net profits for each financial year to the reserve fund until the balance of such fund has reached 50% of their respective registered capital. The reserve fund can only be used, upon approval by the shareholders' meeting or similar authorities, to offset accumulated losses or increase capital. The reserves fund is not available for distribution to shareholders (except on liquidation).

17. TRADE AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Trade payables	**31,261**	12,675	**—**	—
Accrued expenses	**—**	1,370	**—**	280
Advances from customers	**36,793**	49,535	**—**	—
Value added tax payables	**2,310**	8,652	**—**	—
Accrued performance bonus to directors	**24,350**	12,000	**24,350**	12,000
Payables of share issue cost	**9,021**	—	**9,021**	—
Other payables	**35,172**	36,159	**1,505**	—
Amount due to a subsidiary	**—**	—	**—**	10,027
	138,907	120,391	**34,876**	22,307

The amount due to a subsidiary is interest-free, unsecured and has no fixed terms of repayment.

The fair values of trade and other payables approximate their carrying amounts.

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Within 6 months	**29,315**	10,800
6 to 12 months	**154**	645
More than 12 months	**1,792**	1,230
	31,261	12,675

The carrying amounts of trade and other payables are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
RMB	**137,074**	120,391	**33,043**	22,307
USD	**1,661**	—	**1,661**	—
SGD	**110**	—	**110**	—
HKD	**62**	—	**62**	—
	138,907	120,391	**34,876**	22,307

18. DEFERRED INCOME TAX — GROUP

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Deferred income tax assets		
— to be recovered within 1 year	**41,020**	58,144
Deferred income tax liabilities		
— to be settled within 1 year	**(4,698)**	(22,469)
— to be settled after 1 year	**(4,828)**	(7,526)
	(9,526)	(29,995)
Deferred income tax assets — net	**31,494**	28,149

The net movements on the deferred income tax account are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
At 1 January	**28,149**	(18,997)
(Charged)/credited to income statement (Note 23)	**(16,655)**	47,146
Payment of withholding tax	**20,000**	—
At 31 December	**31,494**	28,149

18. DEFERRED INCOME TAX — GROUP *(continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Unrealised profit of intra-group sales RMB'000
At 1 January 2009	—
Credited to income statement	58,144
At 31 December 2009	58,144
At 1 January 2010	**58,144**
Charged to income statement	**(17,124)**
At 31 December 2010	**41,020**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. Due to the fact that the directors are not certain on whether future taxable profit would be available, the Group did not recognise deferred income tax assets of approximately RMB16,899,000 (2009: RMB7,365,000) in respect of tax losses amounting to RMB67,595,000 (2009: RMB29,459,000) as at 31 December 2010 that can be carried forward to offset against future taxable income. Losses amounting to RMB4,084,000, RMB2,116,000, RMB23,259,000 and RMB38,136,000 will expire in 2012, 2013, 2014 and 2015 respectively.

Deferred income tax liabilities

	Fair value gains RMB'000	**Withholding tax of the unremitted earnings of a PRC subsidiary** RMB'000 (Note)	**Total** RMB'000
At 1 January 2009	12,252	6,745	18,997
(Credited)/charged to income statement	(2,287)	13,285	10,998
At 31 December 2009	9,965	20,030	29,995
At 1 January 2010	**9,965**	**20,030**	**29,995**
(Credited)/charged to income statement	**(2,469)**	**2,000**	**(469)**
Payment of withholding tax	**—**	**(20,000)**	**(20,000)**
At 31 December 2010	**7,496**	**2,030**	**9,526**

18. DEFERRED INCOME TAX — GROUP *(continued)*

Deferred income tax liabilities *(continued)*

Note:

Pursuant to Detailed Implementation Regulations ("DIR") for implementation of the new Corporate Income Tax Law issued on 6 December 2007, a 10% withholding tax is levied on the dividends declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. All dividends coming from the profits generated by the PRC companies after 1 January 2008 and to be remitted to their overseas holding companies are subject to this withholding tax.

As at 31 December 2010, the Group recognised relevant deferred tax liabilities of RMB2,030,000 (2009: RMB20,030,000), on the earnings anticipated to be remitted by a PRC subsidiary in the foreseeable future. No withholding tax has been provided for the earnings of approximately RMB908,839,000 (2009: RMB365,275,000) which are expected to be retained by the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future based on management's estimated requirement for funding outside the PRC.

19. REVENUE AND OTHER GAINS/(LOSSES) — NET

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Revenue:		
Sales of pharmaceutical products	**1,036,881**	708,907
Other gains/(losses) — net:		
Processing fee income	**2,391**	4,393
Government grants	**50,970**	19,453
Impairment of intangible assets (Note 7)	**(2,571)**	(80,261)
Gain on disposal of an associated company	**—**	38,201
Write-off of intangible assets (Note 7)	**—**	(238)
Others	**3,262**	2,104
	54,052	(16,348)

20. EXPENSES BY NATURE

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Research and development costs		
Research expenses	**17,960**	13,697
Amortisation of deferred development costs (Note 7)	**12,568**	9,971
	30,528	23,668
Depreciation of property, plant and equipment (Note 6)	**16,473**	11,694
Amortisation of land use rights (Note 8)	**1,129**	1,129
Amortisation of intangible assets excluding the amortisation of deferred development costs (Note 7)	**5,874**	5,755
Raw materials used	**265,604**	164,342
Changes in inventories of finished goods and work in progress	**(4,977)**	6,543
Employee benefit expenses (Note 21)	**65,317**	37,369
Travelling expenses	**16,269**	12,478
Office expenses	**25,513**	27,977
Advertising expenses	**786**	2,060
Transportation expenses	**7,553**	5,562
Entertainment expenses	**3,802**	3,233
Operating lease payments	**2,366**	1,882
Share issue cost (Note 15)	**14,283**	—
Auditors' remuneration	**2,100**	1,800
Professional services expense	**8,062**	2,629
Others	**16,938**	11,413
Total cost of sales, distribution costs and administrative expenses	**477,620**	319,534

21. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2010 **RMB'000**	2009 RMB'000
Wages and salaries	**60,117**	33,595
Contribution to social insurance scheme	**2,876**	2,423
Staff welfare	**2,324**	1,351
	65,317	37,369

(a) Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds, which are calculated at certain percentage of the average employee salary as announced by local municipal government, to the scheme to fund the retirement benefits of the employees.

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2010 is set out below:

Name of Directors	**Fees RMB'000**	**Salary RMB'000**	**Performance bonuses RMB'000**	**Social insurance scheme contribution RMB'000**
Executive directors:				
Dr. Che Fengsheng	**–**	**1,001**	**12,175**	**4**
Dr. Guo Weicheng	**–**	**549**	**7,305**	**4**
Mr. Meng Xianhui	**–**	**323**	**4,870**	**–**
Non-executive directors:				
Dr. Zhang Jionglong	**–**	**–**	**–**	**–**
Mr. Homer Sun (i)	**–**	**–**	**–**	**–**
Mr. Eddy Huang (ii)	**–**	**–**	**–**	**–**
Independent non-executive directors:				
Mr. Patrick Sun (iii)	**46**	**–**	**–**	**–**
Mr. Bai Huiliang (iii)	**44**	**–**	**–**	**–**
Mr. Xu Kangsen (iii)	**44**	**–**	**–**	**–**
	134	**1,873**	**24,350**	**8**

21. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' and senior management's emoluments *(continued)*

The remuneration of every director for the year ended 31 December 2009 is set out below:

Name of Directors	Fees RMB'000	Salary RMB'000	Performance bonuses RMB'000	Social insurance scheme contribution RMB'000
Executive directors:				
Dr. Che Fengsheng	—	750	6,000	4
Dr. Guo Weicheng	—	450	3,600	4
Mr. Meng Xianhui	—	300	2,400	—
Mr. Huang Zhenhua (iv)	—	48	—	15
Non-executive directors:				
Dr. Zhang Jionglong	—	—	—	—
Mr. Homer Sun (i)	—	—	—	—
Mr. Chong Teck Sin (v)	286	—	—	—
Mr. Ng Cher Yan (v)	286	—	—	—
	572	1,548	12,000	23

(i) Appointed on 13 December 2009.

(ii) Appointed on 5 August 2010.

(iii) Appointed on 7 October 2010.

(iv) Mr. Huang Zhenhua resigned from the board of directors in May 2009.

(v) These non-executive directors resigned from the board of directors in December 2009.

21. EMPLOYEE BENEFIT EXPENSES *(continued)*

(c) Five highest paid individuals

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,585**	868
Bonuses	**90**	88
	1,675	956

The emoluments fell within the following bands:

	Year ended 31 December	
	2010	2009
Emolument bands		
Nil–HK$1,000,000	**1**	2
HK$1,000,001–HK$1,500,000	**1**	—

For the years ended 31 December 2010 and 2009, no payments had been made by the Group to the Directors or the highest paid individuals in respect of inducement to join or compensation for loss of office, and no Directors or the highest paid individuals waived any of the emoluments.

22. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Exchange loss	**(1,488)**	(493)
Bank charges	**(371)**	(99)
Finance costs	**(1,859)**	(592)
Interest income	**23,629**	6,236
Finance income	**23,629**	6,236
Net finance income	**21,770**	5,644

23. INCOME TAX EXPENSE

(a) Bermuda profits tax

The Group has not been subject to any taxation in these jurisdictions during 2010 (2009: nil).

(b) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2010 (2009: nil).

(c) PRC corporate income tax ("PRC CIT")

PRC CIT is provided on the assessable income of the companies now comprising the Group derived from the PRC, adjusted for those items, which are not assessable or deductible for the PRC CIT purposes.

With effect from 1 January 2008, the PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC ("new CIT Law"), as approved by the National People's Congress on 16 March 2007. According to the new CIT Law and the relevant regulations, the new corporate income tax rate applicable to the companies of the Group established in the "Hainan Special Economic Zone" and "Shenzhen Special Economic Zone" will be gradually changed to 25% over a five-year period from 2008 to 2012 and the applicable tax rate for the year ended 31 December 2010 is 22% (2009: 20%), while those established in other areas are subject to income tax rate at 25%.

Hainan Sihuan and Beijing Sihuan were qualified as high-tech enterprises and are entitled to a further reduction in tax rate. Accordingly, Hainan Sihuan's and Beijing Sihuan's corporate income tax for 2010 were provided at the rate of 15%.

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Current tax	**92,986**	114,516
Deferred tax (Note 18)	**16,655**	(47,146)
	109,641	67,370
Under-provision (i)	**18,534**	—
Income tax expense	**128,175**	67,370

(i) The amount represented the additional tax payment arranged during the year as a result of the final clarification by the in-charge tax authority in respect of the preferential tax treatment granted to a PRC subsidiary in previous taxation years.

23. INCOME TAX EXPENSE *(continued)*

(c) PRC corporate income tax ("PRC CIT") *(continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit before tax	**635,083**	381,026
Tax calculated at applicable tax rates for respective subsidiaries of the Group	**149,056**	115,697
Tax effects of:		
— Share of profit of an associated company	**—**	(589)
— Gain on disposal of an associated company	**—**	3,196
— Additional deductible allowance for research and development expenses	**(1,200)**	(653)
— Withholding tax on the earnings expected to be remitted by subsidiaries	**2,000**	13,285
— Effect of tax reduction and exemption	**(51,020)**	(72,081)
— Expenses not deductible for tax purposes	**1,271**	934
— Tax losses for which no deferred income tax asset was recognised	**9,534**	7,581
Tax charge	**109,641**	67,370

24. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is 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. The ordinary shares of 3,280,000,000 issued on 8 October 2010 related to the capitalisation issue as disclosed in Note 15(c) were deemed to have been issued at the beginning of the earliest period presented in the financial statements.

	Year ended 31 December	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**522,065**	326,316
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	**4,005,479**	3,750,000
Basic earnings per share (RMB cents per share)	**13.03**	8.70

(b) Diluted

There is no dilution to earnings per share during 2010 and 2009 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share equal the basic earnings per share.

25. DIVIDENDS

The dividends paid in 2010 and 2009 were RMB173,939,000 (RMB37.0 cents per share) and RMB120,029,000 (RMB25.5 cents per share) respectively. No final dividend is to be proposed in respect of the year ended 31 December 2010.

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Interim dividend of RMB37.0 cents (2009: RMB10.2 cents) per ordinary share before the initial public offering in October 2010	**173,939**	48,471
Final dividend of RMB15.2 cents per ordinary share in respect of the year ended 31 December 2008	**—**	71,558
	173,939	120,029

26. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Profit before income tax	**635,083**	381,026
Adjustments for:		
— Depreciation of property, plant and equipment (Note 6)	**16,473**	11,694
— Amortisation of intangible assets (Note 7)	**18,442**	15,726
— Impairment of intangible assets (Note 7)	**2,571**	80,261
— Write-off of intangible assets (Note 7)	**—**	238
— Amortisation of land use rights (Note 8)	**1,129**	1,129
— Share issue cost (Note 20)	**14,283**	—
— Loss on disposal of property, plant and equipment	**140**	98
— Gain on disposal of an associated company (Note 19)	**—**	(38,201)
— Gain on held-to-maturity financial assets	**(95)**	—
— Interest income (Note 22)	**(23,629)**	(6,236)
— Share of profit of an associated company	**—**	(2,357)
Operating cash flow before working capital changes	**664,397**	443,378
Changes in operating assets and liabilities:		
— Inventories	**(10,379)**	(3,572)
— Trade and other receivables	**(146,495)**	(37,708)
— Trade and other payables	**8,477**	36,840
Cash generated from operations	**516,000**	438,938

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Net book amount (Note 6)	**194**	234
Loss on disposal of property, plant and equipment	**(140)**	(98)
Proceeds from disposal of property, plant and equipment	**54**	136

27. COMMITMENTS

Group

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Property, plant and equipment	**3,212**	2,739
Intangible assets — product development in progress	**51,594**	23,089
Acquisition of subsidiaries (Note 30(a))	**2,200,000**	—
	2,254,806	25,828

(b) Operating lease commitments

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
No later than 1 year	**664**	659
Later than 1 year and no later than 2 years	**320**	271
Later than 2 years	**293**	506
	1,277	1,436

Company

The Company does not have any material capital commitments or operating lease commitments.

28. BUSINESS COMBINATION

Acquisition of Gao Duan Wei Ye

In June 2010, the Group acquired 60% equity interest in Gao Duan Wei Ye for a total cash consideration of RMB4,000,000. The aggregate effects of the acquisition of the assets and liabilities on the acquisition date and the cash flows of the Group were as follows:

	At fair value	Carrying amounts in acquiree's books
	RMB'000	RMB'000
Identifiable assets and liabilities:		
Cash and cash equivalents	4,019	4,019
Trade and other receivables	117	117
Property, plant and equipment	10	10
Total assets	4,146	4,146
Trade and other payables	(1,018)	(1,018)
Total liabilities	(1,018)	(1,018)
Identifiable net assets	3,128	3,128
Goodwill and cash flows:		
Non-controlling interest	(1,071)	
Identifiable net assets acquired	2,057	
Goodwill	1,943	
Total consideration	4,000	
Less: Cash and cash equivalents in the subsidiary acquired	(4,019)	
Net cash inflow on acquisition for the year 2010	(19)	

The acquired business contributed revenues of RMB nil and net loss of RMB1,019,000 to the Group in 2010. If the acquisition had occurred on 1 January 2010, the Group revenue would have been RMB1,036,881,000, and profit would have been RMB502,454,000. These amounts have been calculated using the Group's accounting policies.

29. RELATED-PARTY TRANSACTIONS

Except for the information as disclosed in Note 17 (accrued performance bonus to directors) and Note 21 (directors' emoluments), the Group had no other material transactions with related parties for the years ended 31 December 2010.

30. EVENT AFTER THE BALANCE SHEET DATE

(a) Acquisition of Dupromise

On 24 November 2010, Sun Moral and JSAB Investment Holding Limited ("JSAB"), an independent third party, entered into a share purchase agreement pursuant to which Sun Moral has conditionally agreed to purchase, and JSAB has conditionally agreed to sell, the entire equity interest in Dupromise. The principal activities of Dupromise are manufacturing and sale of pharmaceutical products in the PRC. The total consideration will be determined based on the 2011 audited net income multiplied by 12 and should not exceed RMB2,400,000,000 and shall be settled by cash. The prepaid consideration of the acquisition was RMB200,000,000 as at 31 December 2010. This transaction has been subsequently completed in January 2011 and the directors of the Company are in the process of accessing the future financial impact.

(b) Acquisition of Benxi Leilong

On 31 December 2010, Shenzhen Sihuan and Shenyang Jia He Chuang Tou Investment Management Co., Ltd (瀋陽嘉和創投投資管理有限公司), an independent third party, entered into a share purchase agreement pursuant to which Shenzhen Sihuan has conditionally agree to purchase the entire equity interest in Benxi Leilong at a cash consideration of RMB36,199,000. The principal activities of Benxi Leilong are manufacturing and sale of pharmaceutical products in the PRC. The relevant legal procedure of this acquisition has not been completed up to the approval date of these financial statements, and the directors of the Company are in the process of accessing the future financial impact.

(c) Acquisition of Changchun Xiangtong Pharmacy Co., Ltd. ("Changchun Xiangtong")

On 20 January 2011, Jilin Sihuan Pharmaceutical Co., Ltd. ("Jilin Sihuan"), (formerly known as Dupromise Pharmaceutical (China) Company, a wholly owned subsidiary of Dupromise) and the 10 individual shareholders of Changchun Xiangtong ("Assignors") entered into a sales and purchase agreement pursuant to which Jilin Sihuan has conditionally agreed to purchase, and the Assignors have conditionally agreed to sell, 80% equity interest in the Changchun Xiangtong at a cash consideration of RMB140,600,000. The principal activities of Changchun Xiangtong are manufacturing and sale of pharmaceutical products in the PRC. This transaction has not been completed up to the approval date of these financial statements.

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