盈天醫藥集團有限公司

WINTEAM PHARMACEUTICAL GROUP LIMITED

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)

Annual Report 2010

CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Director

DU Richeng *(Chairman)*

Executive Directors

XU Tiefeng *(Executive Deputy Chairman)*
YANG Bin *(Managing Director)*
SITU Min *(Chief Financial Officer)*
LI Songquan *(Deputy Managing Director)*

Independent Non-executive Directors

LO Wing Yat
PANG Fu Keung
WANG Bo
ZHANG Jianhui

COMPANY SECRETARY

HUEN Po Wah

AUDIT COMMITTEE

PANG Fu Keung *(Chairman)*
LO Wing Yat
WANG Bo
ZHANG Jianhui

REMUNERATION COMMITTEE

LO Wing Yat *(Chairman)*
DU Richeng
PANG Fu Keung
WANG Bo
ZHANG Jianhui

REGISTERED OFFICE

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China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

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STOCK CODE

The shares of Winteam Pharmaceutical Group Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong & Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited
Hang Seng Bank Limited

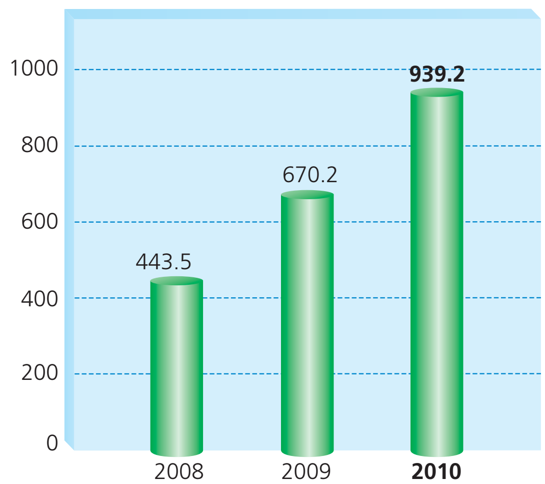
WEBSITE

http://www.winteamgroup.com

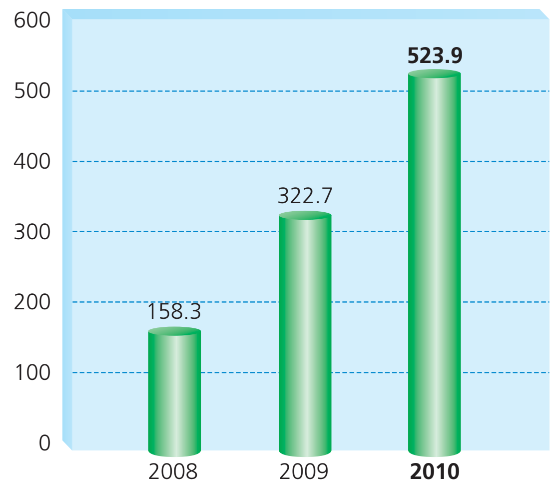
RESULTS HIGHLIGHTS

	2010 HK$'000	2009 HK$'000	Change
Turnover	**939,178**	670,175	40.1%
Gross Profit	**523,904**	322,696	62.4%
Profit before taxation	**115,230**	90,465	27.4%
Profit attributable to equity shareholders of the Company	**60,925**	44,054	38.3%
Basic earnings per share (HK cent)	**3.53**	2.82	25.2%

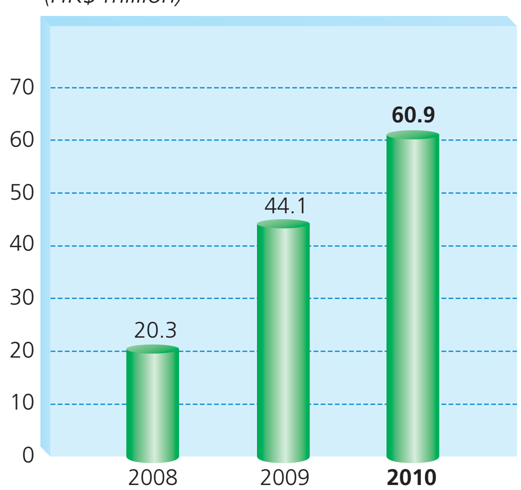
TURNOVER
(HK$ million)



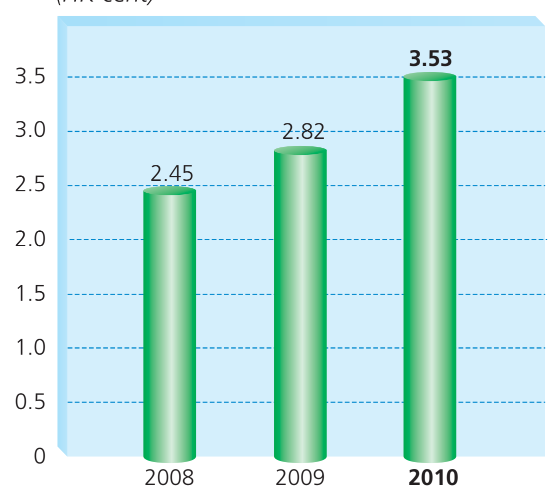
GROSS PROFIT
(HK$ million)



PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY
(HK$ million)



BASIC EARNINGS PER SHARE
(HK cent)



Chairman's Statement

CHAIRMAN'S STATEMENT

On behalf of Winteam pharmaceutical Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

BUSINESS PERFORMANCE

The business of the Group continued to register satisfactory growth during the year under review and maintained promising performance, which reflected the enhanced competitiveness of the Group through the implementation of the acquisition and integration strategy of the board of directors (the "Board").

During the year under review, turnover of the Group increased by 40.1% to HK$939,178,000 from HK$670,175,000 for the corresponding period of last year. Profit from operation was HK$119,061,000, representing an increase of 24.3% as compared to HK$95,786,000 for the corresponding period of last year. Profit attributable to equity shareholders increased by 38.3% to HK$60,925,000 and basic earnings per share were HK cents 3.53, representing an increase of 25.2% as compared to the corresponding period of last year.

BUSINESS REVIEW

2010 was a critical year during which the medical and health system reform of China (the "New Medical Reform") was fully implemented. Ancillary policies for the New Medical Reform were gradually promulgated and implemented, bringing new momentum to the pharmaceutical industry along with new challenges. The Group leveraged on the development opportunities brought by the New Medical Reform to the pharmaceutical industry, strengthened our resources consolidation, and improved the standards of corporate management and new drug development. All these together have brought the production and operation of the Group to a new arena.

Following the further implementation of the National Essential Drugs system and the further improvement of the National Medical Insurance coverage and protection standard, there was an upward trend of the usage of those of our prescription drugs which were listed on the new version of the Essential Drugs List and the New Medical Insurance List by medical institutions. With the strong brand promotion in various media channels of the Group, our major OTC products also showed a substantial increase in sales quantity in retail drug stores, resulting in a record high turnover since our establishment.

In April and December 2010, the Group completed the acquisitions of a 93% equity interest of Foshan City An Ning Company Limited ("An Ning") and a 95.6% equity interest of Foshan Zhong Hong Co., Ltd. ("Zhong Hong"). The equity interest of Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") held by the Group increased to 96.6% from 51%; while the equity interest of Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing") held by the Group also increased to 97.8% from 51%. These two acquisitions not only increased the profit attributable to equity holders of the Company but also had substantial strategic significance for the Group, allowing the Group to formulate strategic development plans for the China time-honored brand "Feng Liao Xing" which has 430 years of history and the China well-known brand "Dezhong". On the "List of Protected Cultural Heritage of Traditional Chinese Lingnan* Medicine" announced by Guangdong province in 2010, there were a total of 19 Feng Liao Xing and Dezhong products selected under the protected list of traditional Chinese medicine with secret formula, which rank top among all pharmaceutical companies in Guangdong province. These included the famous Feng Liao Xing Rheumatism Medicinal Wine, Yuanjilin Herbal Tea（源吉林甘和茶）and Shaolin Dieda Herbal Plaster（少林跌打止痛膏）. The brands "Feng Liao Xing" and "Dezhong" demonstrated the philosophy of "moral first, people oriented" which has been advocated for pharmaceutical manufacturing for over 400 years. This philosophy also aligns with the corporate value that the Group has been pursuing. The Group will continue to capitalise on the rich traditional Chinese medicine resources of Feng Liao Xing and Dezhong to establish its corporate image as "King of Lingnan Medicine"（「南藥王」）in China.

* Lingnan（嶺南）is a geographic area referring to lands in the south of China's "Five Ranges". The region covers the Guangdong, Guangxi, Hainan, Hunan, and Jiangxi provinces.

Led by its brand strategy, the Group started a product selection project, which involved systematic and scientific analysis of over 200 types and specifications of products according to their market absorption capacity, growth rate and degree of competition, to determine the focus of the Group's product development. These product lines include respiratory system drug, pediatrics and immunology medicine, cerebro-cardiovascular drug, rheumatic disease and injury drug, special antibiotics, oncology drug with the representative products being Bi Yan Kang Tablet, VC Yinqiao Tablet, Yu Ping Feng Granule, Sheng Tong Ping (Nifedipine Sustained-release Tablet), Feng Liao Xing Rheumatism Medicinal Wine, Gaode (Cefodizime Sodium for injection) and Sha Pei Lin (Group A Streptococcus for injection).

During the year under review, based upon the above brand positioning and key product lines planning, the Group implemented different sales strategies for the three major end markets of the pharmaceutical products of China, namely city hospital ("First End"), retail pharmacy ("Second End") and village, town and district hospitals ("Third End"). The prescription drug business department and OTC business department have been set up, with an aggregate of approximately 1,200 staff. The target markets of the sales team of the prescription drug business department were the First and Third End Markets, and the main products being promoted were pediatrics and immunology medicine, cerebro-cardiovascular drug, anti-biotics and oncology drug etc. The OTC Business Department on the other hand was mainly responsible for the sale of respiratory system drug and rheumatic disease and injury drug to chain store pharmacies in cities, villages and towns. This strategy was an important drive for the business development of the Group, leading to a remarkable growth in turnover of the core products in 2010.

The Group also achieved significant results in its techniques and quality of products. Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), our subsidiary, accumulated rich technical experience in the manufacturing of controlled-released and sustained-release preparation, and produced two signature products, namely Nifedipine Sustained-release Tablet, and Fexofenadine/Pseudophedrine Sustained-release Capsule. Dezhong was also among the top in modern traditional Chinese medicine preparation technology and quality standard research in China, particularly in the techniques of Spray drying method and double-decked sheeting technology. The quality control standard of the Group has always been above the national standard, and our products, namely Bi Yan Kang Tablet, Yu Ping Feng Granule and VC Yinqiao Tablet rank first among like products in terms of quality, and were included in the "National Pharmacopoeia" in 2010. Our continuing emphasis on quality of drugs and production technique have enabled us to achieve good results in the centralized public bidding in drug purchasing of medical institutions of various provinces.

OUTLOOK AND STRATEGIES

According to the statistics of China Southern Pharmaceutical Research Institute, the compound annual growth rate of the pharmaceutical market in China for the past 10 years was 16.46%. It is expected that the gross product of the pharmaceutical sector in China would reach RMB1,256 billion, or an increase of 25% over the corresponding period in 2010. Based on the latest forecast of IMS Health, an international pharmaceutical research institute, the compound annual growth rate of the pharmaceutical market in China would reach 24% during 2011 to 2015. Such growth momentum is believed to be driven by the remarkable improvement in the ability of households to increase spending on medical needs, as well as the higher level of urbanisation. With the full implementation of the Essential Drugs System and the continuous investment in the New Medical Reform by various levels of governments, the market share of National Essential Drugs is expected to increase gradually, and remarkable growth of drug consumption in the First and Third End Markets is expected to be seen.

At present, the Group has more than 200 types of products covering Chinese patent medicine, chemical drugs and bio-drugs. These drugs were mainly under 12 categories of clinical disease types, including cerebro-cardiovascular, respiratory, gynecology, pediatrics, orthopedics, ear-nose-throat, and injury. These products have established their brand recognition and sales support in the domains of cerebro-cardiovascular, respiratory disease, injury and pain relief. 5 exclusive products of the Group were included in the new version of the National Medical Insurance List, being Yu Ping Feng Granule, Bi Yan Kang Tablet, Gandakang Tablet (肝達康片), Bai Ling Tablet (白靈片), and Wuji Bai Feng Granule (烏雞白鳳顆粒). The Group will continue to leverage on our rich product resources to enlarge our sales network, actively explore the First and Third End Markets and strengthen the brand advantage in the Second End Market.

Foshan of Guangdong was once one of the "Four Major Historic Towns"(「四大名鎮」)of China, and the cradle of Chinese Lingnan medicine, having a large number of renowned historic medicine shops such as Liang Zhonghong Wax Pill Shop(梁仲弘蠟丸館), Ma Pak Leung(馬佰良), Chop Lan Tong(集蘭堂), Yuen Kut Lam(源吉林), and Li Chung Shing Tong(李眾勝堂). During the Ming and Qing dynasties, kung fu and Cantonese opera were very popular in Foshan. This led to the popularity of Chinese patent medicine for sprains and bruises which gradually became the symbolic products of Chinese Lingnan medicine along with the birth of historic medicine shops well known for their bonesetting patent drugs such as Feng Liao Xing, Liang Caixin(梁財信)and Xi Ming Tang(西鳴堂). Martial art masters with Foshan origin such as Huang Fei Hong(黃飛鴻), Ye Wen(葉問)and Bruce Lee were the best spokesmen for Chinese Lingnan medicine. Through Feng Liao Xing, the Group inherited the excellent medical resources of historic medicine shops of Chinese Lingnan medicine. The municipal government of Foshan has been planning to revitalise the reputation of Foshan while the Group shall bear the mission of reviving the Chinese Lingnan medicine. We will strive our best to promote the martial art culture and heritage contained in the Chinese Lingnan medicine, nurture persistently the Chinese Lingnan medicine brands of "Dezhong" and "Feng Liao Xing" with the philosophy of "To rule medicine from morality"(「以德治醫」), in order to create the "Winteam" brand as "King of Lingnan Medicine" in furtherance of Chinese Lingnan medicine.

Looking forward, the Group wishes to integrate the essence of traditional Chinese medicine and modern pharmaceutical technology, continuously research and develop products with the support of technological innovation to meet market demand, and to realise the corporate mission of "Contributing to human healthcare; improving life quality and creating happy life."

DIVIDEND

The Board did not recommend a payment of final dividend for the year ended 31 December 2010 (2009: nil).

ACKNOWLEDGEMENTS

Finally, I would like to take this opportunity to express my sincere gratitude to our staff members for their effort and contribution in 2010 and my appreciation also goes to our clients and shareholders for their support. With the effort and support from all parties, the Group will adhere to our established goals of providing our shareholders with the highest return.

DU Richeng
Chairman

22 March 2011

Management Discussion and Analysis

SALES REVIEW

During the year under review, the Group adjusted the product mix according to the medical reform policies and market changes, and devoted more efforts and resources on promoting the corporate and product brand images. We adopted more diversified sales model to explore sales network and channel in increase the product coverage to more hospitals and retail end markets. We also strengthened the market position of our core products amid intense competition in the pharmaceutical market, resulting in satisfactory growth of sales.

SALES OF CORE PRODUCTS

According to the product mix planning, the Group focused on developing products with market capacity and state policy advantages. These products cover respiratory system drug, cerebro-cardiovascular drug, pediatrics and immunology medicine, Rheumatic diseases and injury drug, special antibiotics and oncology drugs, with major products such as Bi Yan Kang Tablet, VC Yinqiao Tablet, Sheng Tong Ping (Nifedipine Sustained-release Tablet), Yu Ping Feng Granule, Feng Liao Xing Rheumatism Medicinal Wine, Gaode (Cefodizime Sodium for injection) and Sha Pei Lin (Group A Streptococcus for injection).

During the year under review, sales of the Group were HK$939,178,000, representing an increase of 40.1%, as compared to HK$670,175,000 of the same period last year. Sales of the 7 core products were HK$575,784,000, representing an increase of 51.2%, as compared to HK$380,700,000 of the same period last year, and accounted for 61.3% of the sales of the Group.

Respiratory system drug

The major products were Bi Yan Kang Tablet and VC Yinqiao Tablet produced by Dezhong. Bi Yan Kang Tablet is one of the exclusive products under the new version of the National Essential Drugs List and the Medical Insurance List. During the year under review, sales of Bi Yan Kang Tablet amounted to HK$216,570,000, representing an increase of 101.4% compared to HK$107,558,000 of the same period last year, and accounted for 23.1% of the total sales of the Group. Sales of VC Yinqiao Tablet were HK$32,616,000, decreased by 6.7% compared to HK$34,975,000 of the same period last year, and accounted for 3.5% of the sales of the Group.

The remarkable growth of sales of Bi Yan Kang Tablet was principally attributable to the resources that the Group spent on promoting the product through various media across China including television advertisement by phases, and the increased production volume to match the promotion and marketing campaign undertaken at retail sales points such as pharmacies and large chain store pharmacies. These efforts have effectively enhanced the brand awareness and coverage of Bi Yan Kang Tablet, resulting in satisfactory results of sales in the retail sales points. The growth of sales of Bi Yan Kang Tablet was also benefited from the growth of sales in hospital prescription after the product was included in the National Essential Drugs List, as well as the highly effective product price maintenance measures.

Using Biyankang Tablet as the centre of focus, the Group also selectively introduced western medicine such as antihistamine drug to cure allergic rhinitis and other types of Chinese patent drugs and Phinamide（鼻炎滴劑）, creating a comprehensive product line for rhinitis under the “Dezhong” brand. The target market of these products was mainly retail pharmacies and basic medical institutions.

Cerebro-cardiovascular drug

The major product was Sheng Tong Ping (Nifedipine Sustained-release Tablet) produced by Guangdong Medi-World which was a chemical drug mainly used to relieve high blood pressure and nerve pain of heart. It is the leading product of its kind in the mainland and the model of controlled-release and sustained-release preparation in Guangdong province. During the year under review, sales of Sheng Tong Ping were HK$98,664,000, increased by 21.2% compared to HK$81,388,000 of the same period last year, and accounted for 10.5% of the total sales of the Group.

From 2004 to 2009, sales of Sheng Tong Ping increased to 9.11 million packs from 3.49 million packs, with a compound annual growth rate was 21.1%. This was benefited from the academic marketing strategy of Sheng Tong Ping which the Group have been persistently implemented. The cerebro-cardiovascular team of the Group invited authoritative medical experts to cooperate on a long term basis. Through hosting forum and discussion panels on high blood pressure studies, we established the brand and product image of Sheng Tong Ping in the professional domain. Besides, since March 2008, the Group launched the "Step by Step Penetration Program"(「星火燎原計劃」)(the "Plan") in full to explore the Third End Market. The Plan used Guangdong as the focal point to expand its sales network and penetrate into other provinces in China. At present, the Plan already covered 22 provinces and fostered the steady and continuous growth of sales of products of Sheng Tong Ping over the years.

Going forward, the Group has selected several types of cerebro-cardiovascular product on which its promotion efforts will be focused. These include western medicine such as Sheng Tong Ping, Compound Eualapril, Telmisartan and Indapamide sustained-release Tablets; and the exclusive Chinese patent medicines such as Shengmai Capsule(生脈膠囊)and Shentian Capsule(參田膠囊). The market positioning of the cerebro-cardiovascular products is the second tier and third tier municipal hospitals and basic medical institutions of county and village and town levels.

Pediatrics and immunology medicine

The principal product under this category was Yu Ping Feng Granule produced by Guangdong Medi-World, which was Chinese traditional medicine used to strengthen the immune system. Yu Ping Feng Granule is included in the "National Traditional Chinese Medicine Protected Category", "Reserve Drugs for Severe Pandemic" of the state and the exclusive product under Chinese patent medicine in the new version of the National Essential Drugs List. During the year under review, sales of Yu Ping Feng Granule were HK$78,737,000, which recorded a substantial rise of 140.0% as compared to HK$32,811,000 of the same period last year.

Yu Ping Feng Granule was a product that the Group developed with emphasis, targeting at hospitals in large cities as well as basic medical institutions and OTC retail markets. The Group fully leveraged on the progress of research on immunology in recent years and positioned Yu Ping Feng Granule as "The Chinese medicinal herb immunomodulator". Through promotion in the academic domain and hosting conferences for all key hospital units in China, the Group promoted the pathological effects of "Two-way immune modulation" of Yu Ping Feng Granule with medical proof. At the end of 2010, the Group supported the National pediatrics Immunology Annual Meeting as sole sponsor, and invited famous experts of pediatrics and immunology from China and abroad to deliver seminars. The research reports published during the Meeting proved the regulatory effects to the immunological system of Yu Ping Feng Granule, which has benefited the promotion of Yu Ping Feng Granule in China, and at the same time provided a basis for clinical application of Yu Ping Feng Granule by a lot of doctors.

With the gradual implementation of the National Essential Drugs System, a growing trend of sales for medical institution prescription appeared. Driven by the support from medical institutions and the effective implementation of the promotion plan of core products in OTC sales points in China by the Group, growth of Yu Ping Feng Granule was also seen in the OTC retail markets. From 2008 to 2010, the annual compound growth rate of sales of Yu Ping Feng Granule was 100%.

Rheumatic diseases and traumatic injury drug

This type of Chinese patent medicine was the signature product of the Group. The major product was Feng Liao Xing Rheumatism Medicinal Wine. During the year under review, sales of Feng Liao Xing Rheumatism Medicinal Wine were HK$42,791,000, which showed a decrease of 19.4% compared to HK$53,097,000 of the same period last year, and accounted for 4.6% of the total sales of the Group.

During the second half of 2010, the Group redeveloped the future sales strategy for rheumatic disease and traumatic injury drug. On top of Feng Liao Xing Rheumatism Medicinal Wine which has always been our emphasis, we also supplemented some exclusive external products for traumatic injury to enrich our product mix, which are Shaolin Dieda Herbal Plaster, Jinlong Shangshi Herbal Plaster（金龍傷濕止痛膏）, Jin Shu Dieda Pill（金術跌打丸）and Jiehong Dieda Tincture（竭紅跌打酊）. Through redesigning packaging, adjusting product prices and sales channels, and allocating more sales staff for Rheumatic diseases and traumatic injury products, we have successfully penetrated the basic medical market at county and village and town levels as well as the retail market.

Anti-biotics for injection

Gaode (Cefodizime Sodium for injection), an antibiotic of injection type under Cefodizime Sodium, currently enjoyed the largest market share for the same type of products in China. The product is applied to infection caused by allergic bacteria, such as upper and lower urinary infection and Gonorrhea. During the year under review, sales of Gaode were HK$91,986,000, increased by 51.6% compared to HK$60,663,000 of the same period last year, and accounted for 9.8% of the total sales of the Group.

Since more provinces included Gaode in the Medical Insurance List at provincial level and Essential Drugs List for New Village Cooperative Medical Treatment, the geographical coverage of Gaode has been expanded. At the same time, there was further refinement of the original sales agency model in provinces, with the distribution system penetrated to cities at local and county levels which resulted in a wider market coverage for this product.

Oncology drug

Sha Pei Lin (Group A Streptococcus for injection) was the most powerful and widely accepted super antigen biological reactions modulators (BRM). It was mainly used to cure ascites caused by malignant neoplasm and as ancillary treatment of tumors. During the year under review, sales of Sha Pei Lin were HK$14,420,000, which recorded an increase by 41.3% compared to HK$10,208,000 of the same period last year, and accounted for 1.5% of the total sales of the Group.

SALES OF OTHER PRODUCTS

During the year under review, sales of other products of the Group were HK$363,394,000, increased by 25.5% compared to HK$289,475,000 of the same period last year, and accounted for 38.7% of the total sales of the Group. The adjustment of product lines and clear brand positioning of the Group not only fostered the sales of core products but also drove the growth of sales of other products. Other than the above core products, 6 products of the Group recorded sale of over HK$10 million, reflecting the rich product resources of the Group and potential for future development.

COST CONTROL

During the year under review, due to inflation pressure, there was a significant surge in prices of raw materials of traditional Chinese medicine as well as the costs of packing materials and fuel costs. Despite this, gross profit of the Group managed to improved by 62.4% to HK$523,904,000. Gross profit margin increased by 7.6 percentage points to 55.8% from 48.2% of the same period last year.

During the year under review, the Group strictly implemented cost control measures. These measures mainly included careful selection of suppliers to ensure raw materials procured are of high quality at low costs with stable and adequate supply; optimizing skills to improve the quality of products and efficiency of production; and re-formulating employee remuneration policies such as floating wages system and incentive and punishment proposals. In addition, the group's subsidiary, Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical"), served as the central procurement platform of the traditional Chinese medicinal materials and effectively reduced the costs of procurement through bulk purchases. Reasonable price hikes of several core products also contributed to the increased gross profit margin of the Group.

It is expected that the prices of Chinese medicinal materials would still stand at a relatively high level in 2011 which is expected to exert pressure on the cost of sales for the Group. In light of this, the Group plans to set up GAP ("Good Agriculture Practice") bases for key traditional Chinese medicinal materials (such as astragali radix and angelica sinensis) in Gansu province of China with an aim to ensuring stability in the supply and prices of traditional Chinese medicinal materials.

RESEARCH AND DEVELOPMENT

Research and development expenses invested by the Group during the year under review amounted to HK$37,508,000, representing a substantial growth of 216.7% compared to HK$11,845,000 of last year. Based on our own advantages and the current development status of the pharmaceutical sector, we determined modernisation of traditional Chinese medicine and new pharmaceutical preparations（新型藥物製劑）as the development strategy of our core competitiveness.

In the area of new drugs, the Group would enrich the existing product lines of cerebro-cardiovascular system, nervous system, special antibiotics, and anti-oncology drugs. In the pharmaceutical preparations area, controlled-release and sustained-release preparation and lipid microsphere would be the representative products. The competitiveness of the Group would be enhanced from a technical perspective by implementing planning of product research and development, developing characteristics and advantages of our product types, and improving production skills and quality level.

SUBSTANTIAL CAPITAL INVESTMENT

The Group commenced several projects to enhance productivity and competitiveness during the year to meet the keen demand in the pharmaceutical market in the future.

In January 2010, the Group acquired the land use right of a plot of land located in Gao Ming District, Foshan, at a consideration of approximately RMB17,500,000 for the purpose of constructing a modern Chinese medicine extract and preliminary treatment centre to increase production capacity to meet the ever increasing sales demand of the Group. The centre occupied approximately 106 mu with a gross floor area of approximately 70,000 square metres. Construction work is expected to be completed and operation is expected to commence at the end of year 2011, with a capacity to process 20,000 tonnes of traditional Chinese medicine, process and pack 80 million packs of traditional Chinese herbal slices, and produce 10,000 tonnes of traditional Chinese medicinal wine. The centre is also expected to achieve an upgrade in technology and techniques for preparatory treatment, extracting of traditional Chinese medicine, and become the most advanced and sizeable extraction and preliminary treatment centre in the Pearl Delta region. The centre would help to remove the bottleneck constraints of the production of Chinese patent medicine for the Group.

In April 2010, the Group successfully obtained the land use right of a plot of land of approximately 33 mu located in Chan Cheng District, Foshan by tender at a consideration of approximately RMB77,060,000. The plot of land is planned to be used for the construction of the headquarters of the Group, a product inspection centre and a modern pharmaceutical research centre.

In addition, the Group also expanded the workshop of the granule products at Guangdong Medi-World, increasing its production capacity by 3.5 times of the existing capacity to 1 billion packs. The workshop is expected to commence operation in June 2012.

OUTLOOK

Due to the continuous improvement in the living standard of people and an increasingly ageing population, the demand for medical and healthcare services in China will be keener and stronger. Consumers are more health conscious and the demand for high quality drugs at low prices continues to increase. The New Medical Reform would also bring revolutionary changes and precious development opportunities to the pharmaceutical sector. With the gradual implementation of the Essential Drugs System, pharmaceutical companies of ordinary drugs with quality product and brand will get more policy support and thus advantages in their development. Such factors will bring huge market opportunities for the Group.

The development of pharmaceutical companies can be affected easily by state pharmaceutical policies. For instance, the new policy for centralised procurement by tender and centralised allocation and distribution will further standardise the market practices; the promulgation of the new version of GMP standard will enhance the standard and quality control of the production of drugs. These will speed up the adjustment and consolidation of the sector. In addition, there will be more changes in the pricing principles, method of ascertaining prices and individual pricing etc as a result of the forthcoming implementation of "Administrative Measures for the Pricing of Drugs". Furthermore, the Group will have to face keen competitions and challenges from competitors in the pharmaceutical sector, particularly from those who possess richer or more exclusive product lines, stronger brands and distribution network, and lower cost structure. Such factors bring uncertainty and volatility to the sales of the Group. In response to these, we may need to invest more capital to upgrade our production facilities, conduct marketing and promotion activities for our products and brand, as well as carry out research and development of new drugs. These measures may cause of costs and expenses to increase.

Notwithstanding these challenges, with the thorough implementation of the established development strategies, enhancement of three critical operating capability in research and development and innovation, quality of production and marketing, and by grasping those merger and acquisition opportunities which will benefit us in the aspects of brand, sales network, product and research and development, we believe the Group is in a niche position to gain from the future golden opportunities of the pharmaceutical sector and create higher value for shareholders.

FINANCIAL OVERVIEW

Turnover

For the year ended 31 December 2010, the Group's turnover increased by 40.1% to HK$939,178,000 from HK$670,175,000 for the corresponding period of last year. The increase in turnover was the result of the Group's successful strategy in focusing on the medicines which have substantial market and enjoy advantages from state policies.

Cost of Sales and Gross Profit Margin

For the year ended 31 December 2010, the Group's cost of sales was HK$415,274,000, representing an increase of 19.5% as compared to HK$347,479,000 for the corresponding period of last year. Direct raw materials, direct labor and production overhead accounted for 75.6%, 10.5% and 13.9% of the total cost of sales respectively, as compared to 62.2%, 12.2% and 25.6% respectively for the corresponding period of last year. For the year ended 31 December 2010, the Group's gross profit margin was 55.8%, representing an increase of 7.6 percentage points as compared to 48.2% for the corresponding period of last year. As Nanhai Pharmaceutical served as procurement platform of the Chinese medicinal materials for the subsidiaries of the Group, it effectively reduced the costs of procurement by bulk purchase of Chinese medicinal materials. Reasonable price hikes of several core products also contributed to the increased gross profit margin of the Group.

Other Revenue

For the year ended 31 December 2010, the Group's other revenue was HK$13,348,000, representing an increase of 11.2% as compared to HK$12,004,000 for the corresponding period of last year. Such increase was mainly attributable to the increase of government grants by HK$481,000 to HK$9,835,000 and the increase of HK$435,000 of interest income as compared to the corresponding period of last year.

Other Net Income

For the year ended 31 December 2010, the Group's other net income was HK$9,034,000, representing an increase of 663.0% as compared to HK$1,184,000 for the corresponding period of last year. Such increase was mainly attributable to HK$8,797,000 net gain on the disposal of properties, plant and machinery during the year.

Selling and Distribution Costs

For the year ended 31 December 2010, the Group's selling and distribution costs amounted to HK$317,161,000, representing an increase of 96.2% as compared to HK$161,625,000 for the corresponding period of last year, which mainly consisted of advertising and promotion expenses of HK$87,701,000, salary expenses of sales and marketing staff of HK$49,176,000, distribution costs and traveling expenses of HK$144,579,000, and other cost of sales of HK$35,705,000. The increase in selling and distribution costs as compared to last year was due to the fact that the Group put more resources to promote the product image and brand image as well as extending the sales network with diversified marketing models, which allowed its products to gain access to more hospitals and the retail market.

Administrative Expenses

For the year ended 31 December 2010, the Group's administrative expenses amounted to HK$110,064,000, representing an increase of 40.3% as compared to HK$78,473,000 for the corresponding period of last year. Such increase was mainly attributable to the increase of research and development costs by HK$25,663,000 to HK$37,508,000 as compared to the corresponding period of last year. The administrative expenses mainly comprised of staff costs of HK$27,452,000, depreciation and amortisation of HK$6,359,000, product research and development expenses of HK$37,508,000 and office rental and other expenses of HK$38,745,000.

Profit from Operations

For the year ended 31 December 2010, the Group's profit from operations was HK$119,061,000, representing an increase of 24.3% as compared to HK$95,786,000 for the corresponding period of last year; and the operating profit ratio (defined as the profit from operations divided by the total turnover) decreased to 12.7% from 14.3% for the corresponding period of last year. Such decrease was due to the significant increase in selling and distribution costs for the year ended 31 December 2010.

Finance Costs

For the year ended 31 December 2010, the Group's finance costs amounted to HK$3,831,000 (year ended 31 December 2009: HK$5,321,000) which mainly represented the interest expenses of bank borrowings. The effective interest rate for the loans was 5.3% (31 December 2009: 5.6%).

Earnings per share

For the year ended 31 December 2010, the basic earnings per share was HK$ cent 3.53, representing a 25.2% increase as compared to HK$ cent 2.82 for the corresponding period of last year. The increase in basic earnings per share was due to the increase of 38.3% in the profit attributable to equity shareholders, which amounted to HK$60,925,000 (year ended 31 December 2009: HK$44,054,000).

Liquidity and Financial Resources

As at 31 December 2010, the Group's current assets amounted to HK$600,712,000 (31 December 2009: HK$508,246,000), including cash and cash equivalents and deposits with banks of HK$180,887,000 (31 December 2009: HK$233,495,000). Current liabilities amounted to HK$489,089,000 (31 December 2009: HK$268,184,000). Net current assets aggregated to HK$111,623,000 (31 December 2009: HK$240,062,000). The Group's current ratio decreased from 1.9 as at 31 December 2009 to 1.2 as at 31 December 2010. The gearing ratio (defined as the bank loans divided by the interests attributable to equity shareholders of the Company) slightly increased from 12.2% as at 31 December 2009 to 13.1% as at 31 December 2010. Such increase was due to the increment of bank loans as the Group requires sufficient fund to continue its business expansion and fund the investment to upgrade the production capacity.

BANK LOANS AND PLEDGE OF ASSETS

As at 31 December 2010, the balance of the Group's bank loan was HK$109,294,000 (31 December 2009: HK$84,042,000), of which HK$94,016,000 (31 December 2009: HK$59,511,000) was secured by the Group's assets.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2010 (31 December 2009: Nil).

EXCHANGE RATE RISK

During the period, individual companies within the Group have limited foreign currency risk as most of the transactions were denominated in the same currency as the functional currency of the operations to which they related. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited and no financial instrument has been used for the purpose of hedging exchange rate risks.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed a total of 2,760 (31 December 2009: 2,350) staff members, including directors of the Company, of which the number of sales staff, production staff and those engaged in research and development, operation and administration and senior management were 1,165, 1,130 and 465 respectively. Remuneration packages were principally comprised of salary and discretionary performance bonus based on individual merits. The Group's total remuneration for employees for the year was HK$116,680,000 (31 December 2009: HK$100,302,000).

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of pharmaceutical products in the PRC.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 44 to 112.

No interim dividend was paid during the year. The Board did not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: nil).

Since the Group was in the vital stage of expansion and development, we need to reserve sufficient cash to seek merger and acquisition opportunities. The Board, having duly considered the circumstances, decided not propose any final dividend for the year ended 31 December 2010. The Company shall review its dividend policy from time to time and would distribute dividend to shareholders at appropriate time.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$60,925,000 (2009: HK$44,054,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 27 and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 113 to 114.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2010 are set out in note 17 to the financial statements.

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

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

DIRECTORS

The Board comprises the following directors during the financial year and up to the date of this report:

Non-executive Director

DU Richeng	*Chairman*

Executive Directors

XU Tiefeng	*Executive Deputy Chairman*
YANG Bin	*Managing Director*
SITU Min	*Chief Financial Officer*
LI Songquan	*Deputy Managing Director*

Independent Non-executive Directors

LO Wing Yat
PANG Fu Keung
WANG Bo
ZHANG Jianhui

The Company has received from each independent non-executive director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers all the independent non-executive directors to be independent.

In accordance with Article 101 of the Company's Articles of association, Mr. YANG Bin, Mr. LO Wing Yat and Mr. PANG Fu Keung will retire by rotation at the forthcoming Annual General Meeting (the "AGM") and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of the existing directors of the Company, including the particulars required under paragraph 12 of Appendix 16 of the Listing Rules (if and as applicable and appropriate), are set out on pages 39 to 41.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. DU Richeng has entered into an appointment letter with the Company for a term of one year commencing on 1 January 2011.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. XU Tiefeng has a service agreement with the Company for a term of two years commencing on 15 June 2009 which will continue thereafter until terminated by either party to the service agreement at six months' notice.

Mr. YANG Bin has a service agreement with the Company for a term of two years commencing on 21 June 2009 which will continue thereafter until terminated by either party to the service agreement at six months' notice.

Mr. SITU Min has a service agreement with the Company for a term of two years commencing on 1 March 2003 which will continue thereafter until terminated by either party to the service agreement at six months' notice.

Mr. LI Songquan has a service agreement with the Company for a term of two years commencing on 1 April 2007 which will continue thereafter until terminated by either party to the service agreement at six months' notice.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

All the independent non-executive directors are appointed for a specific term subject to re-election.

Mr. LO Wing Yat and Mr. PANG Fu Keung entered into appointment letters with the Company for a term of two years commencing on 11 February 2011.

On 22 March 2011, Mr. WANG Bo and Mr. ZHANG Jianhui entered into appointment letters with the Company for a term of two years commencing on 10 June 2011.

DIRECTORS' FEES

The shareholders approved an authorisation to be given to the Board to fix the directors' fees at the AGM of the Company held in June 2009 and thereafter, shareholders' approval of such authorisation will be sought at the AGM to be held in each year. For the year ended 31 December, 2010, the fee for each of the directors was fixed at HK$180,000 per annum by the Board.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2010, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed 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 which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares of the Company:

Name of Directors	Capacity	Number of Ordinary Shares	Underlying Shares Pursuant to Share Options	Total Interests	Approximate Percentage of Total Interests to Issued Share Capital (%)
XU Tiefeng	Interest of controlled corporations	641,602,563 *(Notes 1 & 2)*	–	641,602,563	35.98
YANG Bin	Interest of controlled corporations	641,602,563 *(Notes 1 & 3)*	–	641,602,563	35.98

Note:

1. Of the 641,602,563 shares, 564,102,563 shares are held by Sureplan Limited ("Sureplan"), which is 25 % owned indirectly by Mr. XU Tiefeng and 50% owned indirectly by Mr. YANG Bin. Both Mr. XU Tiefang and Mr. YANG Bin are deemed to be interested in Sureplan's interest in the Company under the SFO. Mr. XU Tiefeng and Mr. YANG Bin both are directors of Sureplan.

2. Of the 641,602,563 shares, 77,500,000 shares are held by Extra Benefit Corp. ("Extra Benfit"). Extra Benefit is wholly owned by Mr. XU Tiefeng. These shares were issued and allotted by the Company to Extra Benefit on 10 May 2010, pursuant to the subscription agreement dated 30 January 2010. The details of subscription shares are referred below under the section headed "Connected Transactions" in this report.

3. Of the 641,602,563 shares, 77,500,000 Shares are held by Profit Channel Development Limited ("Profit Channel"). Profit Channel is wholly owned by Mr. YANG Bin. These shares were issued and allotted by the Company to Profit Channel on 10 May 2010, pursuant to the subscription agreement dated 30 January 2010. The details of subscription shares are referred below under the section headed "Connected Transactions" in this report.

Save as disclosed above, none of the directors and chief executives of the Company had, as at 31 December 2010, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were 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. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the period.

Substantial Shareholders' Interests

On 12 July 2010, the directors of the Company were informed that the entire shareholding interest of Hensil Investments Group Limited ("Hensil Investments") held by Foshan Development Company Limited were transferred to Foshan Overseas Investment Limited ("Foshan Overseas"). The procedure of change of intermediate controlling shareholder was completed on 15 July 2010. The details of the structure of controlling shareholding are referred to the announcement dated 12 July 2010.

As at 31 December 2010, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of SFO were as follows:

Long positions in shares and underlying shares of the Company:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Total Interests	Percentage of Issued Share Capital (%)
Hensil Investments	Beneficial owner	605,290,886 *(Note 1)*	605,290,886	33.94
Foshan Overseas	Interest of a controlled corporation	605,290,886 *(Note 1)*	605,290,886	33.94
Foshan Public Utilities Holding Co., Ltd.	Interest of a controlled corporation	605,290,886 *(Note 1)*	605,290,886	33.94
Sureplan	Beneficial owner	564,102,563 *(Note 2)*	564,102,563	31.63
Extra Benefit	Interest of a controlled corporation	564,102,563 *(Note 2)*	641,602,563	35.98
	Beneficial owner	77,500,000 *(Note 3)*		
Profit Channel	Interest of a controlled corporation	564,102,563 *(Note 2)*	641,602,563	35.98
	Beneficial owner	77,500,000 *(Note 4)*		
First Linkup Development Limited	Interest of a controlled corporation	564,102,563 *(Note 2)*	564,102,563	31.63
WU Chiu Kong	Interest of controlled corporations	564,102,563 *(Note 2)*	564,102,563	31.63

Note:

1. The 605,290,886 shares are held by Hensil Investments, which is wholly owned by Foshan Overseas. By virtue of its interest in Hensil Investments, Foshan Overseas is deemed to be interested in such 605,290,886 shares held by Hensil Investments. As Foshan Overseas is wholly owned by Foshan Public Utilities Holding Co., Ltd. ("Foshan Public Utilities"), Foshan Public Utilities is deemed to be interested in such 605,290,886 shares held by Hensil Investments.

2. The 564,102,563 shares are held by Sureplan, which is owned indirectly as to 25% by Mr. WU Chiu Kong, 25% by Mr. XU Tiefeng and 50% by Mr. YANG Bin. Profit Channel is deemed to be interested in Sureplan's interest in the Company under the SFO by virtue of Profit Channel being entitled to control the exercise of not less than one-third of the voting power at the general meeting of Sureplan. Profit Channel is wholly owned by Mr. YANG Bin. Sureplan is owned as to 25% by Extra Benefit and 25% by First Linkup Development Limited whereas Extra Benefit is wholly owned by Mr. XU Tiefeng and First Linkup Development Limited is wholly owned by Mr. WU Chiu Kong. So, Mr. YANG Bin, Mr. XU Tiefeng and Mr. WU Chiu Kong are deemed to be interested in Sureplan's interest in the Company under SFO.

3. The 77,500,000 shares are held by Extra Benefit. Extra Benefit is wholly owned by Mr. XU Tiefeng. These shares were issued and allotted by the Company to Extra Benefit on 10 May 2010, pursuant to the subscription agreement dated 30 January 2010. The details of subscription shares are referred below under the section headed "Connected Transactions" in this report.

4. The 77,500,000 shares are held by Profit Channel. Profit Channel is wholly owned by Mr. YANG Bin. These shares were issued and allotted by the Company to Profit Channel on 10 May 2010, pursuant to the subscription agreement dated 30 January 2010. The details of subscription shares are referred below under the section headed "Connected Transactions" in this report.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2010.

POSSIBLE DISPOSAL OF SHARES BY A CONTROLLING SHAREHOLDER

The Board was informed by Foshan Overseas, an intermediate controlling shareholder of the Company, that it is currently engaged in discussions with Profit Channel and Extra Benefit (Extra Benefit together with Profit Channel, the "Potential Purchasers") regarding a possible disposal of the entire issued share capital of Hensil Investments, a controlling shareholder of the Company, to the Potential Purchasers, or alternatively Hensil Investments may dispose its entire shareholding interest in the Company to the Potential Purchasers (the "Possible Disposal"). As at the date of this report, there is no agreement (whether formal or informal) entered into between Foshan Overseas or Hensil Investments and the Potential Purchasers in relation to the Possible Disposal. The Possible Disposal may or may not materialise. Shareholders may refer to the Company's announcements dated 21 December 2010, 20 January 2011, 18 February 2011 and 21 March 2011 for more details.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") for any eligible employee or director of any member of the Group. The Scheme was approved by the Company's shareholders at the Extraordinary General Meeting of the Company held on 22 May 2002 and amended by the Company's shareholders at the AGM on 29 May 2006. Details of the Scheme have been disclosed in the Company's most recent published annual report.

The refreshment of the scheme mandate limit of the Scheme was approved by the Company's shareholders at the Extraordinary General Meeting of the Company held on 28 August 2009. Further details of the refreshment of the scheme mandate limit of the Scheme were set out in the circular of the Company dated 5 August 2009.

None of the directors and chief executives had any personal interests in the share options to subscribe for shares of the Company at any time during the year.

No option was granted, exercised, cancelled or lapsed during the year.

Details of the Scheme

Details of the Scheme have already been disclosed in the Company's circular to shareholders dated 29 April 2002 and approved by the Company's shareholders on 22 May 2002. The following is a summary of the Scheme:

(i) Who May Participate

Any employee or director of any member of the Group ("Participant(s)") as invited by the Board at the Board's absolute discretion may participate. In determining the basis of eligibility of each Participant, the Board will mainly take into account of the experience of the Participant on the Group's business, the length of service of the Participant with the Group and the efforts and contributions the Participant has made or is likely to be able to give or make towards the success of the Group in the future.

(ii) Purpose

The purpose of the Scheme is for the Company to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group, to encourage the Participants to perform their best in achieving the goals of the Group and above all to allow the Participants to enjoy the results of the Company attained through their efforts and contributions.

(iii) Duration and Administration

Subject to that the Scheme is terminated by the Company, the Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect and options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue.

(iv) Grant of Option

The Board shall be entitled at any time within 10 years after the date of adoption to make an offer to any Participant. An option shall be deemed to have been granted and accepted and to have taken effect when a signed copy of an offer letter made by the Company to a Participant together with a remittance in favour of the Company of HK$1.00 as consideration for the granting of the same is received by the Company. Subject to the provisions of the Scheme and the Listing Rules, the Board may at its discretion, when making the offer, impose any conditions, restrictions or limitations in relation thereto as it may think fit.

(v) Subscription Price

The subscription price shall be a price determined by the Board and notified to a Participant and shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the grant of an option ("Grant Date"); (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding the Grant Date; and (c) the nominal value of a share.

(vi) Maximum Number of Shares Available for Subscription

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the Scheme, unless the Company obtains an approval from its shareholders to refresh the 10% limit. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the shares in issue from time to time. As at the date of this report, the total number of shares available for issue under the Scheme was 162,841,080 shares which represented 9.13% of the existing issued share capital.

(vii) Maximum Entitlement of Shares of Each Participant

The total number of shares issued and to be issued upon exercise of the options granted to each Participant (including options exercised, cancelled, lapsed and outstanding) in any 12-month period shall not exceed 1% of the total number of shares in issue. Should any further grant of options in excess of the 1% limit of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in above section headed "Share Option Scheme" of this report, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed below, none of the directors and their respective associates was interested in any business which competes or is likely to compete, whether directly or indirectly, with the business of the Group. The directors confirm that the Group is capable of carrying on its business independent of, and at arm's length from, the business as disclosed below which is considered to compete or likely to compete with the business of the Group. The Directors also confirm that the respective management and administration of the business set out below are independent from the Group.

Name of Directors	Name of Company	Nature of Business	Nature of interest
XU Tiefeng and YANG Bin	Foshan Nanhai Pharmaceutical Group Co., Ltd. *(Note)*	– management of investment in the sectors of pharmaceuticals, medical equipments, sanitary materials and health food; and – distribution of pharmaceutical products	shareholders and directors

Note: Foshan Nanhai Pharmaceutical Group Co., Ltd. ("Nanhai Pharmaceutical Group") was owned as to 25.5% by each of Mr. XU Tiefeng and Mr. YANG Bin. Their respective equity interest were increased from 25.5% to 50% from 15 November 2010. Their entire equity interest in Nanhai Pharmaceutical Group was held until 30 December 2010 on which disposed their entire equity interest in Nanhai Pharmaceutical Group to an independent third party.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, Mr. XU Tiefeng and Mr. YANG Bin, both executive directors, have material interests indirectly in the contracts which are listed above under the section headed "Connected Transactions" and "Continuing Connected Transactions" in this report.

Save as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Acquisition of the 93% equity interest in Foshan City An Ning Company Limited and issue and allotment of 155,000,000 shares

On 30 January 2010, Guangdong Medi-World entered into the equity transfer agreement with Mr. HE Zhaojian ("Mr. HE") pursuant to which Guangdong Medi-World agreed to acquire and Mr. HE agreed to sell a 93% equity interest in Foshan City An Ning Company Limited ("An Ning") at a consideration of RMB116 million. An Ning is an investment holding company. The principal asset of An Ning is the holding of a 49% equity interest in Dezhong and the remaining 51% equity interest in Dezhong is held by the Company. Since Mr. HE owned 93% equity interest in An Ning which in turns held 49% equity interest in Dezhong, Mr. HE is therefore a connected person of the Company under the Listing Rules.

Despite the future performance of the Group may rely more on the business performance of Dezhong after completion of the acquisition of An Ning, the Company considers that the business prospects of Dezhong is promising and this acquisition provides a good opportunity for the Company to increase its investment in Dezhong with a view to enhancing the overall profitability of the Group and bringing value to the shareholders.

On even date, the Company also entered into the subscription agreement with Extra Benefit and Profit Channel as the subscribers and Mr. XU Tiefeng and Mr. YANG Bin as the guarantors pursuant to which the Company agreed to issue and allot and each of Extra Benefit and Profit Channel agreed to subscribe for, on a several basis, 77,500,000 new shares at a price HK$0.85 per share. The net proceeds of approximately HK$130 million from the subscription would be used to finance payment of the consideration for the acquisition of the equity interest in An Ning.

Extra Benefit and Profit Channel are wholly owned by Mr. XU Tiefeng and Mr. YANG Bin respectively. Mr. XU Tiefeng and Mr. YANG Bin are executive directors and controlling shareholders of the Company. Therefore, Extra Benefit and Profit Channel are connected persons of the Company under the Listing Rules.

The issuance of the aggregate of 155,000,000 new shares is considered appropriate as it is fast, relatively straightforward, interest-free and gearing-free as compared to other alternatives such as debt financing and rights issue despite its dilutive impact on the existing shareholdings. Further, their share of subscription provides further impetus to Mr. XU Tiefeng and Mr. YANG Bin who are important to the future performance of the Group to implement the Group's relevant development strategies and is therefore beneficial to the Company in this regard.

Mr. HE, Extra Benefit and Profit Channel are connected persons of the Company, the entering into of the equity transfer agreement and the subscription agreement constitute connected transactions for the Company under the Listing Rules.

All transactions contemplated under the equity transfer agreement and subscription agreement were approved by the Company's independent shareholders at the extraordinary general meeting of the Company held on 29 March 2010. Further details of the aforesaid acquisition and subscription were disclosed in the Company's circular dated 11 March 2010. The acquisition and subscription were completed on 28 April 2010 and 10 May 2010 respectively. After completion of the acquisition, the Company's attributable equity interest in Dezheng increased from 51% to approximately 96.6%.

Acquisition of the 95.57% equity interest in Foshan Zhong Hong Company Limited

On 22 November 2010, Guangdong Medi-World entered into the equity transfer agreement with Ms. TAN Zhen ("Ms. TAN") pursuant to which Guangdong Medi-World agreed to acquire and Ms. TAN agreed to sell a 95.57% equity interest in Foshan Zhong Hong Company Limited ("Zhong Hong") at a consideration of RMB120 million. Zhong Hong is an investment holding company. The principal asset of Zhong Hong is the holding of a 49% equity interest in Feng Liao Xing and the remaining 51% equity interest in Feng Liao Xing is held by the Company. Since Ms. TAN owned 95.57% equity interest in Zhong Hong which in turns held 49% equity interest in Feng Liao Xing, Ms. TAN is therefore a connected person of the Company under the Listing Rules.

The Company considers that the business prospects of Feng Liao Xing is promising in view of the profitable track record and development potential of Feng Liao Xing. The acquisition provides a good opportunity for the Company to increase its investment in Feng Liao Xing with a view of enhancing the overall profitability of the Group and bringing additional value to the shareholders.

All transactions contemplated under the equity transfer agreement were approved by the Company's independent shareholders at the extraordinary general meeting of the Company held on 24 December 2010. Details of the acquisition of Zhong Hong are disclosed in the Company's circular dated 8 December 2010. The acquisition was completed on 31 December 2010. After completion of the acquisition, the Company's attributable equity interest in Feng Liao Xing increased from 51% to approximately 97.8%.

CONTINUING CONNECTED TRANSACTIONS

Entering into the master supply agreement with Nanhai Pharmaceutical Group

On 10 November 2009, the Company entered into the master supply agreement with Nanhai Pharmaceutical Group, pursuant to which the Group agreed to supply and Nanhai Pharmaceutical Group agreed to purchase the certain products during the three-year period from 1 January 2010 to 31 December 2012. On the date of entering into the master supply agreement, Nanhai Pharmaceutical Group was owned as to 25.5% by each of Mr. YANG Bin and Mr. XU Tiefeng who are directors and controlling shareholders of the Company. Therefore, the sale and purchase of the products contemplated under the master supply agreement (the "Transactions") constituted continuing connected transaction of the Company under the Listing Rules.

According to the master supply agreement, the value of the Transactions shall not exceed the annual caps of RMB40,000,000, RMB50,000,000 and RMB62,500,000 for each of the financial year ending 31 December 2010, 2011 and 2012 respectively, details of the Transactions are disclosed in the Company's circular dated 4 December 2009. The master supply agreement and the Transactions were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 21 December 2009.

Nanhai Pharmaceutical Group (together with its subsidiaries) is one of the major distributors of pharmaceutical products and is also a licensed distributor of pharmaceutical products to public hospitals in Foshan City. It has established an extensive sales network in Foshan City. Despite the potential reliance on Nanhai Pharmaceutical Group and its subsidiaries for sales during the term of the master supply agreement, the directors consider that by entering into the master supply agreement, the Group will be able to take advantage of the sales network of Nanhai Pharmaceutical Group and its subsidiaries in Foshan City to tap into the public hospitals market and therefore seize the market share in a more effective way when the public medical and health care system reform is gradually implemented.

Nanhai Pharmaceutical Group was owned as to 25.5% by each of Mr. XU Tiefeng and Mr. YANG Bin. Their respective equity interest were increased from 25.5% to 50% from 15 November 2010. Their entire equity interest in Nanhai Pharmaceutical Group was held until 30 December 2010 on which disposed their entire equity interest in Nanhai Pharmaceutical Group to an independent third party. During the period from 1 January 2010 to 31 December 2010, the sale of products by the Group to Nanhai Pharmaceutical Group amounted to RMB17,979,000 which was below the cap amount of RMB40,000,000 for the year ended 31 December 2010.

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

(i) in the ordinary and usual course of business of the Group;
(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for around 18% of the Group's total turnover during the year.

The purchases from the Group's five largest suppliers accounted for around 17% of the Group's total purchases during the year.

At no time during the year, none of the directors, their associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 5(b) and 26 to the financial statements.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The Group's annual report for the year ended 31 December 2010 has been reviewed by the audit committee of the Company (the "Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 31 to 38.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 31 to 38 of this annual report.

CORPORATE SOCIAL RESPONSIBILITY

The Group is always committed to saving energy, reducing the emission of pollution, as well as implementation of projects and plans for environmental protection. During the year, the Group participated in "2010 Hong Kong – Guangdong Cleaner Production Partner Recognition Scheme" launched by Hong Kong Productivity Council, and was awarded the certificate of Hong Kong – Guangdong Cleaner Production Partner (Manufacturing) issued by Hong Kong Productivity Council and The Economic & Information Commission of Guangdong Province on 4 November 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this annual report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

DU Richeng
Chairman

Hong Kong, 22 March 2011

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all of the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules on the Stock Exchange for the year ended 31 December 2010.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There is no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following directors during the year and up to the date of this report:

Non-executive Director:

DU Richeng	*Chairman*

Executive Directors:

XU Tiefeng	*Executive Deputy Chairman*
YANG Bin	*Managing Director*
SITU Min	*Chief Financial Officer*
LI Songquan	*Deputy Managing Director*

Independent Non-executive Directors:

LO Wing Yat
PANG Fu Keung
WANG Bo
ZHANG Jianhui

As at the date of this report, the Board comprises nine directors, including one non-executive director, four executive directors and four independent non-executive directors. The existing directors have a mix of core competence and experiences in areas such as pharmaceutical, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at the board meetings and the relevant committee works. In addition, Mr. PANG Fu Keung, an independent non-executive director, possesses appropriate professional accounting qualifications and financial management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company when necessary. New directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board meets regularly at quarterly basis. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the board meeting and directors are invited to present any issue at such meetings. Notices of all regular board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the directors within reasonable time before the meetings. Draft minutes of board meetings are circulated to the directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by directors.

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:–

– setting the Group's overall objectives and strategies.

– approval of annual budgets and business plans.

– evaluating and monitoring operating and financial performance.

– reviewing and monitoring internal control and risk management.

– approval of announcements of financial results.

– declaration and recommendation of the payment of dividend.

– appointment of new directors.

During the year, five full board meetings, of which four were regular quarterly meetings, were held and the individual attendance of each director is set out below:

Directors	Attendance of Board Meeting	Attendance Rate
Non-executive Director:		
DU Richeng *Chairman*	5/5	100%
Executive Directors:		
XU Tiefeng	5/5	100%
YANG Bin	5/5	100%
SITU Min	5/5	100%
LI Songquan	5/5	100%
Independent Non-executive Directors:		
LO Wing Yat	3/5	60%
PANG Fu Keung	5/5	100%
WANG Bo	5/5	100%
ZHANG Jianhui	5/5	100%

During the year, the Chairman held a private meeting with the independent non-executive directors where without the presence of executive directors and senior management so they felt freely to discuss the corporate governance and development of the corporate business.

Chairman and Managing Director

As at the date of this report, Mr. DU Richeng, a non-executive director, is the Chairman of the Board, and Mr. YANG Bin, an executive director, is the Managing Director of the Company.

The chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of daily operations of the Group.

Appointment and Re-election of Directors

The Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company.

The non-executive director and all the independent non-executive directors are appointed for a specific term and subject to re-election. Mr. DU Richeng has an appointment letter for a term of one year with the Company. Mr. LO Wing Yat, Mr. PANG Fu Keung, Mr. WANG Bo and Mr. ZHANG Jianhui have an appointment letter for a term of two years with the Company.

The Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Article 92 of the Articles of Association of the Company, a director appointed by the Board to fill a casual or as an addition to the Board shall hold office only until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following AGM (in case of an addition to the existing Board), and shall then be eligible for re-election. Furthermore, according to the Article 101 of the Articles of Association of the Company, at each AGM one-third of the directors for the time being, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office. The directors to retire in every year shall be those who have been longest in office.

No new director has been nominated and appointed during the year.

Audit Committee

As at the date of this report, the Audit Committee comprises four independent non-executive directors. The Chairman of the Audit Committee is Mr. PANG Fu Keung. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

The written terms of reference which describe the authority and duty of the Audit Committee were subsequently amended in April 2009 to conform to the Code, a copy of which is posted on the Company's website.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system and internal control procedures; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

The Audit Committee can seek independent professional advice at the expenses of the Company.

During the year, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Independent Non-executive Directors	Attendance of Audit Committee Meeting	Attendance Rate
PANG Fu Keung *Chairman*	2/2	100%
LO Wing Yat	1/2	50%
WANG Bo	2/2	100%
ZHANG Jianhui	2/2	100%

During the year, the Audit Committee reviewed the audited financial statements of the Group for the year ended 31 December 2009 and the interim report of the Group for the year 2010, as well as the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

As at the date of this report, the remuneration committee which was established in 2005 comprises four independent non-executive directors and the Chairman of the Company. The Chairman of the remuneration committee is Mr. LO Wing Yat. None of the member or any associate with them should be involved in deciding his own remuneration. The remuneration committee advises the Board on the Group's overall policy and structure for the remuneration of the directors and senior management. The written terms of reference of the remuneration committee are available on the Company's website.

In determining the emolument payable to the directors, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing base remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

During the year, one remuneration committee meeting was held and the individual attendance of each member is set out below:

	Attendance of Remuneration Committee Meeting	Attendance Rate
Independent Non-executive Directors		
LO Wing Yat *Chairman*	1/1	100%
PANG Fu Keung	1/1	100%
WANG Bo	1/1	100%
ZHANG Jianhui	1/1	100%
Non-executive Director		
DU Richeng	1/1	100%

During the year, the remuneration committee determined the remuneration packages of all executive directors and senior management and made recommendation to the Board of the remuneration of the non-executive directors and independent non-executive directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. After making specific enquiry, except for an executive director who disposed certain shares of the Company on 21 April 2010, the day of announcement of 2009 annual results published, which was within the blackout period under rule A3 of Model Code, all of the other directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year. Specified employees who may possess or have access to price sensitive information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all directors so as to enable them to make an informed assessment of the financial and other information at Board meetings for approval.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2010, the directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on the going concern basis.

The statement about the directors' reporting responsibilities is set out in the Independent Auditor's Report on page 42 to 43 of this annual report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit services are set out below:

Services rendered	**Fee paid/payable in 2010** **HK$**
Audit services	1,607,000
Non-audit service	
Acting as reporting accountants for the issue of circular in relation to the major and connected transaction in respect of the acquisition of the 93% equity interest in Foshan City An Ning Company Limited	500,000
Total	2,107,000

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual review of the effectiveness system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework. The annual review also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the Audit Committee to ensure appropriate remedial measures have been implemented.

COMMUNICATION WITH SHAREHOLDERS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the half-yearly and fully year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings; and

(e) meetings with investors and analysts.

VOTING BY POLL

The Company regularly informs the shareholders of the procedure for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

DU Richeng, aged 61, was appointed to the Board as a non-executive director in January 2008 and is also a member of the Company's remuneration committee. Mr. DU is the Chairman of the Company. Mr. DU has over 30 years' experience in international trading, industrial management, property development and public utilities. Mr. DU was an executive director of the Company from 14 April 1998 to 8 February 2001. Mr. DU came to work in Hong Kong in March 1990 and was appointed as the vice chairman and managing director of Foshan Development Company Limited in November 1996. Subsequently, he was appointed as the chairman of 佛山電建集團公司 (Foshan Electric Power Construction Group Corporation) on his return to the mainland China in January 2001 and was re-designated as the chairman of 佛山公用事業 (Foshan Public Utilities) in July 2006 and had held such office until December 2008. Now, Mr. DU is a 調研員(senior consultant)of Foshan Public Utilities.

EXECUTIVE DIRECTORS

XU Tiefeng, aged 56, was appointed to the Board on 10 June 2009. Mr. XU is the Executive Deputy Chairman of the Company with effect from 30 July 2009. Mr. XU obtained a college diploma in political economy from Guangdong Provincial Party School（廣東黨校）in 1987 and had worked for over 15 years in the government departments and organisations in the People's Republic of China (the "PRC"). During 1984 to 1999, he acted as the Deputy Supervisor（副鎮長）and Supervisor（鎮長）of the former Shunde Rongqi Municipal Government（佛山市順德區容奇鎮人民政府） (the "Rongqi Government"), Deputy Director（副主任）of Office of Industry Development of the Rongqi Government（順德容奇鎮政府工業辦公室）and Secretary of the Rongqi Government. Mr. XU was responsible principally for industrial and economy development and overseeing the development of local state-owned industrial and technology enterprises in Shunde District, covering a wide range of industries including manufacturing of electrical appliances, electronic products, animal feed and pharmaceutical products, and software development. He was actively involved in introducing international practices and management models to local enterprises as well as promoting corporate activities such as mergers and acquisitions and listings for local enterprises. Mr. XU had during that period taken up various roles in companies under the control of the Rongqi Government to represent the controlling interests of the Rongqi Government, including acting as the General Manager of Rongqi Town Economic Development Corporation（容奇經濟發展總公司）and Rongqi Investment Holding Company（容奇鎮投資控股公司）, and a director of Guangdong Kelon (Rongsheng) Group Company Limited（廣東科龍（容聲）集團有限公司）and Guangdong Kelon Electrical Holdings Company Limited 廣東科龍電器股份有限公司 ("Kelon"). Kelon (now known as Hisense Kelon Electrical Holdings Company Limited 海信科龍電器股份有限公司) is a joint stock limited company incorporated in the PRC whose H shares are listed on the Main Board of the Stock Exchange (stock code: 921) and whose A shares are listed on The Stock Exchange of Shenzhen, the PRC.

YANG Bin, aged 43, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company with effect from 11 February 2009. Mr. YANG graduated from 中央民族大學 (Minzu University of China) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.). Mr. YANG has 20 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr.YANG is currently the Chairman and a director of 廣東環球 (Guangdong Medi-World), 山東魯亞製藥有限公司 (Shandong Luya Pharmaceutical Co., Ltd.) and 佛山盈天醫藥科技有限公司 (Foshan Winteam Medical Technology Company Limited).

SITU Min, aged 41, was appointed to the Board in September 2001. Mr. SITU is the Chief Financial Officer and the Qualified Accountant of the Company. Mr. SITU is mainly responsible for the Group's financial disclosure, acquisitions and reorganisations, investor relations. He is a fellow member of the Association of Chartered Certified Accountants and is also a member of Chinese Institute of Certified Public Accountants. Mr. SITU has extensive experience in financial management, and corporate finance and acquisitions.

LI Songquan, age 35, was appointed to the Board in January 2007. Mr. LI has been appointed as the Deputy Managing Director with effect from 1 April 2007. Mr. LI is mainly responsible for the overall strategic planning and management of the Group's business, and human resources. Mr. LI graduated from South China University of Technology. He has working experience in the state-owned enterprises and joint-venture enterprises in the PRC, especially in the reform, reorganisation, acquisition, merger and listing of state-owned enterprises.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LO Wing Yat, aged 52, was appointed to the Board on 11 February 2009. Mr. LO is the Executive Vice Chairman and Chief Executive Officer of CIAM Group Limited (Stock Code: 378), whose shares are listed on the Stock Exchange. He is also the Chief Executive Officer of CITIC International Assets Management Limited and the Managing Director of CITIC International Financial Holdings Limited. Mr. LO also serves as a director in numerous Hong Kong listed companies. He is an executive director of Thunder Sky Battery Limited (Stock Code: 729) and a non-executive director of China Fortune Holdings Limited (Stock Code: 110). He formerly served as a non-executive director of Longlife Group Holdings Limited (Stock Code: 8037) till April 2010. Mr. LO graduated from The University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. During his legal career, Mr. LO was specialised in banking project financing primarily in the PRC.

PANG Fu Keung, aged 39, was appointed to the Board on 11 February 2009. Mr. PANG is the Senior Investment Professional – TRG Management Hong Kong Limited (known as The Rohatyn Group) and Head of the China Special Investments. Mr. PANG was also a director of Citigroup's Global Special Situations Group responsible for Greater China distressed assets, NPL portfolios, pre-IPO and growth equity. Mr. PANG formerly worked for KPMG's Financial Advisory Services as a corporate restructuring specialist. Mr. PANG has extensive experience in assurance, corporate finance and corporate restructuring work and has assisted a number of listed companies in Hong Kong and the PRC since mid-1990s. Mr. PANG graduated from the University of New South Wales in Australia and is a member of the CPA Australia and fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. PANG is also a member of The Hong Kong Institute of Directors.

WANG Bo, aged 51, was appointed to the Board on 10 June 2009. Mr. WANG graduated from Beijing Institute of Iron and Steel Metallurgy Machinery. Mr. WANG had been Deputy Director of Design and Research Institute of Beijing Non-ferrous Metallurgy, General Manager of Beijing Bodi Computer Software Technology Co., Ltd. and General Manager of Beijing Online Software Technology Co., Ltd. Mr. WANG is currently President of 北京秦脉醫藥科技發展有限公司 (Beijing Qinmai Pharmaceutical Technology Development Co., Ltd.) and Chairman of 北京秦脉醫藥諮詢有限公司 (Beijing Qinmai Pharmaceutical Consultant Co., Ltd.). Mr. WANG is also the independent director of Beijing Double Crane Pharmaceutical Co Ltd which is listed in the PRC (stock code: 600062) and Jiangsu Wu Zhong Shi Ye Company Limited which is listed in the PRC (stock code: 600200). Additional, Mr. WANG is also Vice Chairman of 中國醫藥企業管理協會 (Chinese Pharmaceutical Enterprises Association) and Vice Chairman of 全國醫藥技術市場協會 (National Pharmaceutical Technology Market Association). Mr. WANG has 18 years of experience in pharmaceutical policy research and pharmaceutical manufacturing consultancy.

ZHANG Jianhui, aged 65, was appointed to the Board on 10 June 2009. Mr. ZHANG graduated from Institute of Chemical Engineering, Faculty of Biochemistry of Zhejiang University. Mr. ZHANG is a senior engineer and licensed pharmacist. Mr. ZHANG has 40 years of experience in management of pharmaceutical manufacturing and has obtained the National Technological Advancement Third Class Award. Mr. ZHANG is entitled to the Special Allowance from State Council and is an Excellent Talent of the Professional Technique in the Shandong Province. Mr. ZHANG had been Chairman of Shandong Lukang Pharmaceutical Group and Chairman of Shandong Lukang Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600789). Mr. ZHANG is currently appointed as Deputy Director of the 中國化學制藥工業協會專家委員會 (Specialist Committee of China Pharmaceutical Industry Association) and Consultant of 山東省醫藥工業協會顧問 (Shandong Pharmaceutical Industry Association).

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
Winteam Pharmaceutical Group Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Winteam Pharmaceutical Group Limited (the "Company") set out on pages 44 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of 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 financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 financial statements.

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

OPINION

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Turnover	3	**939,178**	670,175
Cost of sales		**(415,274)**	(347,479)
Gross profit		**523,904**	322,696
Other revenue	4	**13,348**	12,004
Other net income	4	**9,034**	1,184
Selling and distribution costs		**(317,161)**	(161,625)
Administrative expenses		**(110,064)**	(78,473)
Profit from operations		**119,061**	95,786
Finance costs	5(a)	**(3,831)**	(5,321)
Profit before taxation	5	**115,230**	90,465
Income tax	6	**(29,151)**	(22,239)
Profit for the year		**86,079**	68,226
Attributable to:			
Equity shareholders of the Company		**60,925**	44,054
Non-controlling interests		**25,154**	24,172
Profit for the year		**86,079**	68,226
Earnings per share	11		
Basic		**3.53 cents**	2.82 cents
Diluted		**N/A**	N/A

The notes on pages 53 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Profit for the year		**86,079**	68,226
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of overseas subsidiaries		**35,444**	4,109
Available-for-sale securities: net movement in fair value reserve	*10*	**1,974**	1,358
		37,418	5,467
Total comprehensive income for the year		**123,497**	73,693
Attributable to:			
Equity shareholders of the Company		**93,888**	49,258
Non-controlling interests		**29,609**	24,435
Total comprehensive income for the year		**123,497**	73,693

The notes on pages 53 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	**2010 $'000**	2009 $'000
Non-current assets			
Fixed assets	*13*		
– Other property, plant and equipment		**237,500**	247,352
– Investment property		**3,471**	2,543
– Interests in leasehold land held for own use under operating leases		**192,544**	97,200
Construction in progress	*14*	**41,745**	14,396
		475,260	361,491
Intangible assets	*15*	**115,174**	135,127
Goodwill	*16*	**192,578**	186,197
Other financial assets	*18*	**9,840**	5,828
Deferred tax assets	*21(b)*	**12,612**	6,045
		805,464	694,688
Current assets			
Other financial assets	*18*	**31,003**	–
Inventories	*19*	**168,973**	115,041
Trade and other receivables	*20*	**219,849**	159,710
Deposits with banks	*22*	**60,875**	22,033
Cash and cash equivalents	*22*	**120,012**	211,462
		600,712	508,246
Current liabilities			
Trade and other payables	*23*	**361,291**	169,366
Bank loans	*24*	**109,294**	84,042
Current taxation	*21(a)*	**13,466**	8,493
Current portion of deferred government grants	*25*	**5,038**	6,283
		489,089	268,184
Net current assets		**111,623**	240,062
Total assets less current liabilities		**917,087**	934,750

The notes on pages 53 to 112 form part of these financial statements.

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current liabilities			
Deferred tax liabilities	*21(b)*	**58,312**	55,261
Deferred government grants	*25*	**9,591**	7,625
		67,903	62,886
NET ASSETS		**849,184**	871,864
CAPITAL AND RESERVES			
Share capital	*27(b)*	**178,341**	162,841
Reserves		**657,318**	523,273
Total equity attributable to equity shareholders of the Company		**835,659**	686,114
Non-controlling interests		**13,525**	185,750
TOTAL EQUITY		**849,184**	871,864

Approved and authorised for issue by the board of directors on 22 March 2011.

LI Songquan
Director

SITU Min
Director

The notes on pages 53 to 112 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Investment in subsidiaries	*17*	**710,256**	589,388
Current assets			
Other receivables	*20*	**452**	296
Cash and cash equivalents	*22*	**502**	5,137
		954	5,433
Current liabilities			
Trade and other payables	*23*	**1,920**	2,076
		1,920	2,076
Net current assets		**(966)**	3,357
NET ASSETS		**709,290**	592,745
CAPITAL AND RESERVES	*27(a)*		
Share capital		**178,341**	162,841
Reserves		**530,949**	429,904
TOTAL EQUITY		**709,290**	592,745

Approved and authorized for issue by the board of directors on 22 March 2011.

LI Songquan
Director

SITU Min
Director

The notes on pages 53 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Interest attributable to equity shareholders of the Company									
	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Exchange reserve $'000	Reserve fund $'000	Fair value reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2009	83,097	204,057	297	40,473	18,196	524	12,660	359,304	195,810	555,114
Profit for the year	–	–	–	–	–	–	44,054	44,054	24,172	68,226
Other comprehensive income	–	–	–	4,428	–	776	–	5,204	263	5,467
Total comprehensive income for the year	–	–	–	4,428	–	776	44,054	49,258	24,435	73,693
Dividends approved in respect of the previous year	–	–	–	–	–	–	(11,399)	(11,399)	–	(11,399)
New shares issued during the year	79,744	209,207	–	–	–	–	–	288,951	–	288,951
Transfer to reserve fund	–	–	–	–	4,650	–	(4,650)	–	–	–
Dividends declared by subsidiaries paid to non-controlling interests	–	–	–	–	–	–	–	–	(34,495)	(34,495)
At 31 December 2009	162,841	413,264	297	44,901	22,846	1,300	40,665	686,114	185,750	871,864

The notes on pages 53 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Interest attributable to equity shareholders of the Company									
	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Exchange reserve $'000	Reserve fund $'000	Fair value reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2010	162,841	413,264	297	44,901	22,846	1,300	40,665	686,114	185,750	871,864
Profit for the year	–	–	–	–	–	–	60,925	60,925	25,154	86,079
Other comprehensive income	–	–	–	30,989	–	1,974	–	32,963	4,455	37,418
Total comprehensive income for the year	–	–	–	30,989	–	1,974	60,925	93,888	29,609	123,497
New shares issued during the year	15,500	116,250	–	–	–	–	–	131,750	–	131,750
Acquisition of non-controlling interest without a change in control	–	–	–	42,252	17,634	3,294	(139,273)	(76,093)	(201,834)	(277,927)
Transfer to reserve fund	–	–	–	–	10,281	–	(10,281)	–	–	–
At 31 December 2010	178,341	529,514	297	118,142	50,761	6,568	(47,964)	835,659	13,525	849,184

The notes on pages 53 to 112 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Operating activities			
Profit before taxation		**115,230**	90,465
Adjustments for:			
Depreciation and amortisation		**54,214**	52,173
Impairment loss on trade receivables	5(c)	**2,464**	550
Finance costs	5(a)	**3,831**	5,321
Interest income	4	**(1,879)**	(1,444)
Dividend income from unlisted equity securities	4	**(365)**	(92)
(Gain)/loss on disposal of fixed assets	4	**(8,797)**	503
Foreign exchange loss		**19**	68
Operating profit before changes in working capital		**164,717**	147,544
Increase in inventories		**(53,932)**	(1,238)
(Increase)/Decrease in trade and other receivables		**(62,951)**	15,347
Decrease in restricted deposits		**–**	1,529
Increase in trade and other payables		**56,973**	21,614
Cash generated from operations		**104,807**	184,796
PRC enterprise income tax paid		**(32,181)**	(13,636)
Net cash generated from operating activities		**72,626**	171,160
Investing activities			
Payment for the purchase of fixed assets		**(28,932)**	(13,417)
Payment for the purchase of intangible assets		**(646)**	–
Proceeds from disposal of fixed assets		**57,333**	–
Increase in deposits with banks		**(38,842)**	(14,075)
Payment for construction in progress		**(45,678)**	(12,532)
Payment for purchase of available-for-sale securities		**(30,555)**	–
Payment for lease prepayments		**(105,273)**	–
Cash consideration paid for the acquisition of subsidiaries and non-controlling interests, net of cash acquired	31	**(134,132)**	(67,141)
Interest received		**1,879**	1,444
Dividends received from unlisted equity securities		**365**	92
Net cash used in investing activities		**(324,481)**	(105,629)

The notes on pages 53 to 112 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	**2010** **$'000**	2009 $'000
Financing activities			
Proceeds from the issue of new shares		**131,750**	70,000
Proceeds from new bank loans		**130,914**	199,725
Repayment of bank loans		**(105,662)**	(220,978)
Interest paid		**(3,831)**	(5,321)
Dividends paid to non-controlling interests		**–**	(34,495)
Dividends paid to equity shareholders of the Company		**–**	(11,399)
Net cash generated from/(used in) financing activities		**153,171**	(2,468)
Net (decrease)/increase in cash and cash equivalents		**(98,684)**	63,063
Cash and cash equivalents at 1 January		**211,462**	147,764
Effect of foreign exchange rate changes		**7,234**	635
Cash and cash equivalents at 31 December		**120,012**	211,462

The notes on pages 53 to 112 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise Winteam Pharmaceutical Group Limited (the "Company") and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value as explained in accounting policy set out in note 1(e).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

1 SIGNIFICANT ACCOUNTING POLICIES

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group measure any non-controlling interests either at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).

1 SIGNIFICANT ACCOUNTING POLICIES

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) The Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Other investments in equity securities and other financial instruments

The Group's and the Company's policies for investments in equity securities and other financial instruments, other than investments in subsidiaries, are classified as available-for-sale securities, which are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently accounted for as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)).

Other investments in equity securities and other financial instruments are remeasured at fair value at the end of the reporting period with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(t)(iii). When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investment are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 SIGNIFICANT ACCOUNTING POLICIES

(f) Investment property

Investment properties are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Plant, machinery and equipment	10-15 years
– Motor vehicles	5-10 years
– Others	2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES

(h) Construction in progress

Construction in progress represents buildings and, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(k)). Cost comprises direct costs of construction as well as borrowing cost, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to borrowing costs, during the period of construction.

Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	product protection rights	over the product protection period
–	trademarks	10-50 years
–	distribution network	10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 SIGNIFICANT ACCOUNTING POLICIES

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(f)).

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(f)).

1 SIGNIFICANT ACCOUNTING POLICIES

(k) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each date of financial position to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES

(k) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

- For available-for-sale securities, the cumulative loss that has been recognised directly in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- construction in progress;
- intangible assets; and
- goodwill.

1 SIGNIFICANT ACCOUNTING POLICIES

(k) Impairment of assets

(ii) Impairment of other assets

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES

(k) Impairment of assets

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 1(k)).

1 SIGNIFICANT ACCOUNTING POLICIES

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of financial position, and any adjustment to tax payable in respect of previous years.

1 SIGNIFICANT ACCOUNTING POLICIES

(r) Income tax

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES

(r) Income tax

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying mount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

1 SIGNIFICANT ACCOUNTING POLICIES

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendment to HKAS 39, Financial Instruments: Recognition and measurement – eligible hedged items
- Improvements to HKFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendment to HKAS 39 has had no material impact on the Group's financial statements as the amendment's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- As a result of the adoption of the amendments to HKAS 27, the acquisition of an additional interest in a non-wholly owned subsidiary will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognized as a result of such transactions. During the current period, the Group has acquired an additional 45.57% and 46.83% interest in two non-wholly owned subsidiaries respectively. Further details are disclosed in note 31 to this financial statements.
- The impact of the majority of the revisions to HKFRS 3 and other revision of HKAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment introduced by the Improvements to HKFRSs (2009) omnibus standard in respect of HKAS 17, Leases, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

3 TURNOVER

The principal activities of the Group are manufacture and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	2010 **$'000**	2009 $'000
Sales of pharmaceutical products		
– Pills and tablets	**487,453**	351,532
– Medicine wine	**42,791**	53,097
– Injections	**109,340**	74,555
– Paste, granules and others	**299,594**	190,991
	939,178	670,175

4 OTHER REVENUE AND NET INCOME

	2010 **$'000**	2009 $'000
Other revenue		
Government grants (note 25)	**9,835**	9,354
Interest income	**1,879**	1,444
Rental income	**1,269**	1,114
Dividend income from unlisted equity securities	**365**	92
	13,348	12,004

	2010 **$'000**	2009 $'000
Other net income		
Net gain/(loss) on sale of property, plant and equipment	**8,797**	(503)
Exchange loss	**(19)**	(68)
Others	**256**	1,755
	9,034	1,184

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2010 $'000	2009 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**3,831**	5,321
(b) Staff costs:		
Salaries, wages and other benefits	**110,073**	95,265
Contributions to defined contribution retirement plans	**6,607**	5,037
	116,680	100,302
(c) Other items		
Auditors' remuneration	**2,107**	1,890
Depreciation		
– investment properties	**289**	292
– assets held for use under operating leases	**2,294**	2,222
– property, plant and equipment	**26,895**	26,091
Amortisation		
– intangible assets	**24,736**	23,567
Impairment losses		
– trade receivables	**2,464**	550
Operating lease charges: minimum lease payments	**2,803**	546
Research and development costs	**37,508**	11,845
Rentals receivable from investment properties less direct outgoings	**(1,269)**	(1,114)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 **$'000**	2009 $'000
Current tax		
PRC enterprise income tax for the year	**35,746**	25,604
Under-provision in respect of prior year	**1,408**	717
	37,154	26,321
Deferred tax		
Origination and reversal of temporary differences	**(8,003)**	(4,082)
	29,151	22,239

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year.

Pursuant to the Corporate Income Tax Law of PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing"), Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") and Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for a three-year period with effect from 1 January 2008 pursuant to documents issued jointly by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of the State Administration of Taxation and Guangdong Provincial Local Taxation Bureau.

Pursuant to the Corporate Income Tax Law of the PRC and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group is subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 $'000	2009 $'000
Profit before taxation	**115,230**	90,465
Notional tax on profit before taxation, calculated at rates applicable to profit in the countries concerned	**29,858**	27,989
Tax effect on non-deductible expenses	**3,235**	949
Tax effect on non-taxable revenue	**(435)**	(984)
Income tax concessions	**(10,172)**	(8,636)
Withholding tax on undistributed profits of PRC subsidiaries	**5,257**	2,204
Under-provision in respect of prior year	**1,408**	717
Actual tax expense	**29,151**	22,239

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2010				
	Directors' fees $'000	**Salaries, allowances and benefits in kind $'000**	**Discretionary bonuses $'000**	**Retirement scheme contributions $'000**	**Total $'000**
Executive directors					
Yang Bin	**180**	**1,051**	**501**	**(7)**	**1,725**
Situ Min	**180**	**650**	**300**	**30**	**1,160**
Li Songquan	**180**	**650**	**300**	**30**	**1,160**
Xu Tiefeng	**180**	**754**	**360**	**36**	**1,330**
Independent non-executive directors					
Du Richeng	**180**	**–**	**–**	**–**	**180**
Pang Fu Keung	**180**	**–**	**–**	**–**	**180**
Lo Wing Yat	**180**	**–**	**–**	**–**	**180**
Wang Bo	**180**	**–**	**–**	**–**	**180**
Zhang Jianhui	**180**	**–**	**–**	**–**	**180**
	1,620	**3,105**	**1,461**	**89**	**6,275**

7 DIRECTORS' REMUNERATION

	2009				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Yang Bin	90	668	501	29	1,288
Situ Min	100	555	300	25	980
Li Songquan	100	555	300	25	980
Xu Tiefeng	56	462	360	20	898
Lam Siu Hung	6	40	–	2	48
Independent non-executive directors					
Du Richeng	100	–	–	–	100
Pang Fu Keung	89	–	–	–	89
Lo Wing Yat	89	–	–	–	89
Wang Bo	56	–	–	–	56
Zhang Jianhui	56	–	–	–	56
Chan Ting Chuen, David	11	–	–	–	11
Cheung Kin Piu, Valiant	5	–	–	–	5
Ng Pui Cheung, Joseph	22	–	–	–	22
	780	2,280	1,461	101	4,622

Lam Siu Hung; Cheung Kin Piu, Valiant; Chan Ting Chuen, David; and Ng Pui Cheung, Joseph resigned on 21 January, 21 January, 11 February and 24 March 2009 respectively.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2009: four) are directors whose remuneration is disclosed in the above. The aggregate of the emoluments in respect of the other one (2009: one) individual was as follows:

	2010 **$'000**	2009 $'000
Salaries and other emoluments	**515**	723
Retirement scheme contributions	**19**	9
	534	732

The emoluments of the one (2009: one) individual with highest emoluments are within the following band:

	2010 **Number of individuals**	2009 Number of individuals
$		
Nil – 1,000,000	**1**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $15,205,000 (2009: loss of $12,029,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2010 **$'000**	2009 $'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(15,205)**	(12,029)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**–**	28,000
Company's (loss)/profit for the year (note 27(a))	**(15,205)**	15,971

10 OTHER COMPREHENSIVE INCOME

	2010 $'000	2009 $'000
Available-for-sale securities	**2,321**	1,649
Change in fair value recognised during the period income tax effect	**(347)**	(291)
	1,974	1,358

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $60,925,000 (2009: $44,054,000) and the weighted average of 1,727,868,000 (ordinary shares) (2009: 1,561,958,000) in issue during the year.

	2010 '000	2009 '000
Issued ordinary shares at 1 January	**1,628,411**	830,974
Effect of new shares issued	**155,000**	797,437
Weighted average number of ordinary shares at 31 December	**1,727,868**	1,561,958

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted earnings per share is not presented.

12 SEGMENT REPORTING

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Dezhong
- Feng Liao Xing
- Guangdong Medi-World
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Nanhai Pharmaceutical

12 SEGMENT REPORTING

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investment in financial assets, deferred tax assets and other coperate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortization", where "interest" is regarded as including investment income and "depreciation and amortization" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue including inter segment, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

12 SEGMENT REPORTING

(a) Segment results, assets and liabilities

Year ended 31 December 2010

	Dezhong $'000	Feng Liao Xing $'000	Guangdong Medi-World $'000	LUYA $'000	Nanhai Phar-maceutical $'000	Total $'000
Revenue from external customers	340,015	183,477	260,264	106,764	152,655	1,043,175
Inter-segment revenue	–	–	–	–	(103,997)	(103,997)
Consolidated turnover	340,015	183,477	260,264	106,764	48,658	939,178
Reportable segment profit	226,477	74,000	188,719	54,270	13,808	557,274
Interest income from bank deposit	1,536	218	53	18	53	1,878
Interest expenses	265	82	3,464	3	17	3,831
Depreciation and amortization for the year	23,715	17,939	7,722	4,109	89	53,574
Reportable segment assets at year end	363,728	220,151	706,395	110,404	80,048	1,480,726
Additions to non-current assets	45,416	4,035	116,104	13,876	350	179,781
Reportable segment liabilities at year end	150,134	71,569	361,708	22,539	64,588	670,538

12 SEGMENT REPORTING

(a) Segment results, assets and liabilities

Year ended 31 December 2009

	Dezhong $'000	Feng Liao Xing $'000	Guangdong Medi-World $'000	LUYA $'000	Nanhai Phar-maceutical $'000	Total $'000
Revenue from external customers	223,470	178,702	186,264	71,988	19,367	679,791
Inter-segment revenue	–	–	–	–	(9,616)	(9,616)
Consolidated turnover	223,470	178,702	186,264	71,988	9,751	670,175
Reportable segment profit	116,601	64,453	135,503	36,531	2,230	355,318
Interest income from bank deposit	1,152	172	205	11	–	1,540
Interest expenses	–	782	3,719	752	97	5,350
Depreciation and amortization for the year	22,874	11,752	6,325	2,357	89	43,397
Reportable segment assets at year end	258,546	186,831	268,823	99,506	30,194	843,900
Additions to non-current assets	4,616	2,711	190,591	23,304	501	221,723
Reportable segment liabilities at year end	71,013	68,983	97,205	35,672	21,980	294,853

12 SEGMENT REPORTING

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2010 **$'000**	2009 $'000
Revenue		
Reportable segment revenue	**1,043,175**	679,791
Elimination of inter-segment revenue	**(103,997)**	(9,616)
Consolidated turnover	**939,178**	670,175
Profit		
Reportable segment profit	**557,274**	355,318
Elimination of inter-segment profits	**(10,188)**	(1,107)
Reportable segment profit derived from the Group's external customers	**547,086**	354,211
Other revenue and net income	**22,382**	13,188
Depreciation and amortization	**(54,214)**	(52,173)
Finance costs	**(3,831)**	(5,321)
Unallocated head office and corporate expenses	**(396,193)**	(219,440)
Consolidated profit before taxation	**115,230**	90,465

12 SEGMENT REPORTING

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	At 31 December 2010 $'000	At 31 December 2009 $'000
Assets		
Reportable segment assets	**1,480,726**	843,900
Elimination of inter-segment receivables	**(189,645)**	(27,638)
	1,291,081	816,262
Non-current financial assets	**9,840**	5,828
Deferred tax assets	**12,612**	6,045
Unallocated head office and corporate assets	**92,643**	374,799
Consolidated total assets	**1,406,176**	1,202,934
Liabilities		
Reportable segment liabilities	**670,538**	294,853
Elimination of inter-segment payables	**(189,645)**	(27,638)
	480,893	267,215
Current tax liabilities	**13,466**	8,493
Deferred tax liabilities	**58,312**	55,261
Unallocated head office and corporate liabilities	**4,321**	101
Consolidated total liabilities	**556,992**	331,070

(c) Geographic information

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

13 FIXED ASSETS

	Buildings $'000	Plant, machinery and equipment $'000	Motor vehicles $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interests in leasehold land held for own use under operating leases $'000	The Group Total $'000
Cost:								
At 1 January 2009	78,508	150,303	3,617	45,954	278,382	6,572	37,038	321,992
Additions	42	6,283	785	5,838	12,948	–	469	13,417
Acquisition of subsidiaries	36,685	9,866	423	11,048	58,022	–	66,953	124,975
Transfer from construction in progress	44,745	21,250	–	882	66,877	–	–	66,877
Disposals	(369)	(2,128)	(302)	(2,611)	(5,410)	(717)	–	(6,127)
Exchange adjustments	937	(46)	19	1,192	2,102	(15)	987	3,074
At 31 December 2009	160,548	185,528	4,542	62,303	412,921	5,840	105,447	524,208
At 1 January 2010	160,548	185,528	4,542	62,303	412,921	5,840	105,447	524,208
Additions	8,057	9,173	4,387	6,177	27,794	1,138	105,273	134,205
Transfer from construction in progress	14,074	4,981	–	510	19,565	–	–	19,565
Disposals	(53,371)	(19,879)	(269)	(16,026)	(89,545)	–	(15,208)	(104,753)
Exchange adjustments	6,030	7,581	263	2,866	16,740	231	5,960	22,931
At 31 December 2010	135,338	187,384	8,923	55,830	387,475	7,209	201,472	596,156
Accumulated depreciation and amortisation:								
At 1 January 2009	31,375	76,731	2,755	31,758	142,619	3,169	5,971	151,759
Charge for the year	6,236	14,573	379	4,903	26,091	292	2,222	28,605
Written back on disposals	(311)	(1,876)	(273)	(1,962)	(4,422)	(160)	–	(4,582)
Exchange adjustments	461	455	72	293	1,281	(4)	54	1,331
At 31 December 2009	37,761	89,883	2,933	34,992	165,569	3,297	8,247	177,113
At 1 January 2010	37,761	89,883	2,933	34,992	165,569	3,297	8,247	177,113
Charge for the year	7,140	14,292	934	4,529	26,895	289	2,294	29,478
Written back on disposals	(32,507)	(6,943)	(177)	(14,453)	(54,080)	–	(2,137)	(56,217)
Exchange adjustments	2,398	6,511	134	2,548	11,591	152	524	12,267
At 31 December 2010	14,792	103,743	3,824	27,616	149,975	3,738	8,928	162,641
Net book value:								
At 31 December 2010	120,546	83,641	5,099	28,214	237,500	3,471	192,544	433,515
At 31 December 2009	122,787	95,645	1,609	27,311	247,352	2,543	97,200	347,095

13 FIXED ASSETS

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on medium-term leases of 50 years in the PRC. At 31 December 2010, the remaining period of the land use rights is 43 years.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date at which time all terms are renegotiated. One of the leases runs for twenty years with three months' notice for termination. Lease payments of this lease are gradually increased during the lease period to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2010 **$'000**	2009 $'000
Within 1 year	**658**	480
After 1 year but within 5 years	**–**	221
	658	701

All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2010 is $14,700,000 (2009: $14,170,000) by reference to net rental income allowing for reversionary income potential. The valuation of the investment properties as at 31 December 2010 and 2009 were carried out respectively by Memfus Wong Surveyor Limited and BMI Appraisals Limited, two independent firms of professional surveyors.

(c) Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of $22,086,000 were pledged as securities of bank loans of the Group as at 31 December 2010 (see note 24) (2009: $91,310,000).

14 CONSTRUCTION IN PROGRESS

	2010 **$'000**	2009 $'000
At 1 January	**14,396**	1,364
Additions	**45,678**	12,532
Acquisition of subsidiaries	**–**	67,282
Transfer to fixed assets	**(19,565)**	(66,877)
Exchange adjustments	**1,236**	95
At 31 December	**41,745**	14,396

15 INTANGIBLE ASSETS

	The Group				
	Product protection rights $'000	Trademarks $'000	Distribution network $'000	Software $'000	Total $'000
Cost:					
At 1 January 2009	74,353	41,838	–	–	116,191
Addition through acquisition of subsidiaries	–	12,987	66,056	–	79,043
Exchange adjustments	(78)	294	951	–	1,167
At 31 December 2009	74,275	55,119	67,007	–	196,401
At 1 January 2010	74,275	55,119	67,007	–	196,401
Additions	–	345	–	301	646
Exchange adjustments	2,583	1,768	2,331	7	6,689
At 31 December 2010	76,858	57,232	69,338	308	203,736
Accumulated amortisation and impairment loss:					
At 1 January 2009	35,270	2,215	–	–	37,485
Amortisation for the year	14,843	1,841	6,137	–	22,821
Exchange adjustments	(26)	989	5	–	968
At 31 December 2009	50,087	5,045	6,142	–	61,274
At 1 January 2010	50,087	5,045	6,142	–	61,274
Amortisation for the year	15,022	2,925	6,776	13	24,736
Exchange adjustments	2,091	88	373	–	2,552
At 31 December 2010	67,200	8,058	13,291	13	88,562
Net book value:					
At 31 December 2010	9,658	49,174	56,047	295	115,174
At 31 December 2009	24,188	50,074	60,865	–	135,127

The amortisation charge for the year is included in "cost of sales" in the consolidated income statement.

16 GOODWILL

	The Group	
	2010	2009
	$'000	$'000
Cost and carrying amount:		
At 1 January	**186,197**	141,037
Addition acquired through business combination	**–**	44,721
Exchange adjustments	**6,381**	439
At 31 December	**192,578**	186,197

Goodwill acquired through business combination is allocated to the Group's cash-generating units ("CGU") identified as follows:

	The Group	
	2010	2009
	$'000	$'000
Manufacture and sale of pharmaceutical products – Dezhong	**117,980**	114,015
Manufacture and sale of pharmaceutical products – Feng Liao Xing	**27,808**	26,873
Manufacture and sale of pharmaceutical products – Guangdong Medi-Word	**30,634**	29,604
Manufacture and sale of pharmaceutical products – Luya	**13,278**	12,924
Manufacture and sale of pharmaceutical products – Nanhai Pharmaceutical	**2,878**	2,781
	192,578	186,197

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a one-year period and extrapolated to cover a period of nine more years with an estimated increase in selling prices and costs of 3% (2009: 3%) and no growth in sales volume. The rate used to discount the forecast cash flows is 9.7% (2009: 12%).

17 INTEREST IN SUBSIDIARIES

	The Company	
	2010	2009
	$'000	$'000
Unlisted shares, at cost	**529,542**	529,542
Amounts due from subsidiaries	**180,714**	59,846
	710,256	589,388

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be recoverable within twelve months from the Company's date of financial position and are therefore shown in the Company's statement of financial position as non-current assets.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2010.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Lipromate Resources Limited	Hong Kong 14 December 2006	Ordinary HK$1	100%	–	Provision of accounting and management services to the Group
Hensil Industrial Inc. Limited	Hong Kong 6 July 2007	Ordinary HK$1	100%	–	Investment holding
Hensil Trading & Investments Limited	Hong Kong 6 July 2007	Ordinary HK$1	100%	–	Investment holding
Smartpoint International Limited ("Smartpoint")	BVI 10 November 2008	HK$1,000	100%	–	Investment holding
Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") (note (i))	The PRC 1 November 1998	US$5,760,000	–	96.57%	Manufacture and sale of Chinese pharmaceutical products

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTEREST IN SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing") (note (i))	The PRC 16 March 2000	US$6,926,100	–	97.83%	Manufacture and sale of Chinese pharmaceutical products
Gold Sun Development Limited	Hong Kong 9 September 2010	Ordinary HK$1	100%	–	Investment holding
Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World") (note (ii))	The PRC 13 November 1992	US$25,060,000	–	100%	Manufacture and sale of pharmaceutical products and investment holding
Shandong Luya Pharmaceutical Co., Ltd. ("Luya") (note (iii))	The PRC 6 November 2000	RMB24,529,300	–	100%	Manufacture and sale of pharmaceutical products
Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical") (note (iv))	The PRC 6 March 1982	RMB5,500,000	–	100%	Trading of pharmaceutical products
Foshan City An Ning Company Limited	The PRC 13 October 1998	RMB23,353,400	–	93%	Investment holding
Foshan Dezhong Pharmaceutical Machinery Co., Ltd.	The PRC 7 June 2010	RMB500,000	80%	–	Trading of pharmaceutical equipment

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTEREST IN SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Foshan Zhong Hong Co., Ltd.	The PRC 3 December 1973	RMB28,066,782	–	95.57%	Investment holding
Winteam Pharmaceutical Development Co., Ltd	The PRC 13 October 2010	RMB30,000,000	–	100%	Medical research and property management

Notes:

(i) Dezhong and Feng Liao Xing are sino-foreign equity joint ventures established in the PRC pursuant to the law of the PRC on sino-foreign equity joint ventures. Dezhong and Feng Liao Xing have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

(ii) Guangdong Medi-World is a wholly foreign owned enterprise established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. Guangdong Medi-World's period of operation is 30 years expiring on 13 November 2022.

(iii) Luya is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Luya has joint venture periods of 15 years expiring on 6 November 2015.

(iv) Nanhai Pharmaceutical was established pursuant to the Company Law of the PRC.

18 OTHER FINANCIAL ASSETS

	The Group	
	2010	2009
	$'000	$'000
Non-current		
Available-for-sale equity securities		
– Listed in the PRC, at fair value	**8,653**	4,681
– Unlisted equity securities, at cost	**1,187**	1,147
	9,840	5,828
Current		
Other financial instruments, at fair value	**31,003**	–
	40,843	5,828
Market value of listed securities	**8,653**	4,681

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

Other financial instruments as at 31 December 2010 represent the fair value of two wealth management products issued by the two PRC banks of $23,952,000 and $7,051,000 respectively.

19 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2010 **$'000**	2009 $'000
Raw materials	**48,348**	39,265
Work in progress	**48,972**	34,219
Finished goods	**57,253**	32,544
	154,573	106,028
Packaging materials	**10,390**	5,450
Low value consumables	**4,010**	3,563
	168,973	115,041

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2010 **$'000**	2009 $'000
Carrying amount of inventories sold	**414,965**	347,479
Write down of inventories	**309**	–
	415,274	347,479

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade debtors and bills receivables	**198,585**	149,172	**–**	–
Less: allowance for doubtful debt (note 20(b))	**(11,176)**	(8,364)	**–**	–
	187,409	140,808	**–**	–
Deposits and prepayments	**32,440**	18,902	**452**	296
	219,849	159,710	**452**	296

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivables with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	$'000	$'000
Within 3 months of invoice date	**122,343**	120,040
3 to 6 months after invoice date	**38,009**	16,473
More than 6 months less than 12 months after invoice date	**27,057**	4,295
More than 12 months after invoice date	**11,176**	8,364
	198,585	149,172

Trade debtors and bills receivables are due within 30 to 90 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 28(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade debtors and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivables directly (see note 1(k)(i)).

20 TRADE AND OTHER RECEIVABLES

(b) Impairment of trade and bills receivables

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2010	2009
	$'000	$'000
At 1 January	**8,364**	2,647
Addition through acquisition of subsidiaries	**–**	5,154
Impairment loss recognised	**2,464**	550
Exchange adjustments	**348**	13
At 31 December	**11,176**	8,364

At 31 December 2010, the Group's gross trade receivables of $11,176,000 (2009: $8,364,000) were individually determined to be impaired. The individually impaired receivables related to receivables that were overdue more than one year and management assessed that receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of $11,176,000 were recognised (2009: $8,364,000). The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2010	2009
	$'000	$'000
Within 3 months of invoice date	**122,343**	120,040
3 to 6 months after invoice date	**38,009**	16,473
More than 6 months less than 12 months after invoice date	**27,057**	4,295
More than 12 months after invoices date	**–**	–
	187,409	140,808

As at 31 December 2010, receivables that were neither past due nor impaired individually, amounted to $187,409,000 (2009: $140,808,000).

20 TRADE AND OTHER RECEIVABLES

(c) Trade and bills receivables that are not impaired

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2010	2009
	$'000	$'000
PRC corporate income tax payable	**13,466**	8,493

(b) Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Intangible assets $'000	Depreciation allowances in excess of related depreciation $'000	Allowance for impairment of inventories and doubtful debts $'000	Available-for-sale securities $'000	Withholding tax on undistributed profits of PRC subsidiaries $'000	Others $'000	Total $'000
At 1 January 2009	(16,637)	(8,735)	554	(392)	(1,496)	(1,372)	(28,078)
Addition through acquisition	(17,808)	(10,574)	5,067	–	(1,346)	75	(24,586)
Credited/(charged) to profit or loss	3,574	624	(345)	–	(2,204)	2,433	4,082
Credited to reserves	–	–	–	(291)	–	–	(291)
Exchange adjustments	(278)	(158)	71	(1)	19	4	(343)
At 31 December 2009	(31,149)	(18,843)	5,347	(684)	(5,027)	1,140	(49,216)
At 1 January 2010	(31,149)	(18,843)	5,347	(684)	(5,027)	1,140	(49,216)
Credited/(charged) to profit or loss	4,482	2,590	469	–	(5,257)	5,719	8,003
Credited to reserves	–	–	–	(625)	(2,738)	–	(3,363)
Exchange adjustments	(995)	(538)	198	(37)	73	175	(1,124)
At 31 December 2010	(27,662)	(16,791)	6,014	(1,346)	(12,949)	7,034	(45,700)

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(b) Deferred tax assets/(liabilities) recognised

Reconciliation to the consolidated statement of financial position:

	The Group	
	2010	2009
	$'000	$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**12,612**	6,045
Net deferred tax liabilities recognised on the consolidated statement of financial position	**(58,312)**	(55,261)
	(45,700)	(49,216)

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**60,875**	22,033	**–**	–
Cash at bank and in hand	**120,012**	211,462	**502**	5,137
	180,887	233,495	**502**	5,137
Less: Bank deposits with maturity beyond three months (Note 1)	**(60,875)**	(22,033)	**–**	–
Cash and cash equivalents	**120,012**	211,462	**502**	5,137

Note 1: As at 31 December 2010, bank deposits with maturity beyond three months amounted to $60,875,000 were pledged as securities for certain banking facilities (2009: nil) (See note 24).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade creditors	**85,824**	63,672	**–**	–
Other creditors and accrued charges	**241,606**	74,427	**1,922**	2,076
Advances received from customers	**33,861**	31,267	**–**	–
	361,291	169,366	**1,922**	2,076

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	$'000	$'000
Due within 1 month or on demand	**85,824**	63,672

Other creditors and accrued charges mainly include payable for acquisition of non-controlling interest on Foshan Zhong Hong Co., Ltd (note 31), accrued staff costs and benefits and advertising expenses payable.

All of the trade and other payables are expected to be settled within one year or payable on demand.

24 BANK LOANS

At 31 December 2010, the Group's bank loans were repayable as follows:

	The Group	
	2010	2009
	$'000	$'000
Within 1 year or on demand	**109,294**	84,042

24 BANK LOANS

At 31 December 2010, the Group's bank loans were secured as follows:

	The Group	
	2010	2009
	$'000	$'000
Bank loans		
Secured	**109,294**	65,871
Unsecured	**–**	18,171
	109,294	84,042

As at 31 December 2010, bank loans of $49,358,000 (2009: $59,511,000) were guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin, two executive directors of the Company, and were secured by interests in leasehold land and buildings of the Group with carrying amount of $14,811,000 (2009: $91,310,000) (see note 13(c)).

Bank loan of $15,278,000 (2009: $6,360,000) was secured by the interests in leasehold land of Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), previously known as Foshan Winteam Pharmaceutical Co., Ltd., a company in which Mr. Yang Bin and Mr. Xu Tiefeng jointly hold 72.7% equity interest.

Bank loan of $21,154,000 (2009: nil) was secured by interests in leasehold land and building of the Group with carrying amount of $7,275,000. (2009: nil) (See note 13(c)).

Banking facilities of $47,008,000 (2009: nil) were secured by deposits with bank of $60,875,000 (2009: nil). The facilities were utilised to the extent of $23,504,000 and the bank loan drawn was also guaranteed by Foshan Nanhai Yikang Pharmaceutical Co., Ltd., a company in which Mr. Yang Bin and Mr. Xu Tiefeng jointly hold 100% equity interest.

Parts of the Group's banking facilities, $23,504,000 (2009: $34,071,000) are subject to the fulfilment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2010 and 2009, none of the covenants relating to drawn down facilities had been breached.

25 DEFERRED GOVERNMENT GRANTS

The Group has been awarded various government grants for technological improvements and for research and development on new and existing pharmaceutical products. Deferred government grants represent the portion of government grants that compensate the Group for expenses to be incurred in future periods. The portion of deferred government grants that will be recognised as income in the next year amounted to $5,038,000 (2009: $6,283,000) has been classified as current and the remaining portion of $9,591,000 (2009: $7,625,000) has been classified as non-current.

26 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of $20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions. The aggregate of the mandatory and voluntary contributions made by the employer represents 5% of the basic salary of the employees. Mandatory contributions to the plan vest immediately. Where there are employees who leave the Group prior to vesting fully in the voluntary contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

27 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Retained profits $'000	Total $'000
At 1 January 2009	83,097	204,057	297	11,771	299,222
Profit for the year	–	–	–	15,971	15,971
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	–	–	–	15,971	15,971
Dividends approved in respect of the previous year	–	–	–	(11,399)	(11,399)
New shares issued during the year	79,744	209,207	–	–	288,951
At 31 December 2009	162,841	413,264	297	16,343	592,745
At 1 January 2010	162,841	413,264	297	16,343	592,745
Loss for the year	–	–	–	(15,205)	(15,205)
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(15,205)	(15,205)
New shares issued during the year	15,500	116,250	–	–	131,750
At 31 December 2010	178,341	529,514	297	1,138	709,290

27 CAPITAL AND RESERVES

(b) Share capital

	2010		2009	
	Number of shares '000	**Nominal value $'000**	Number of shares '000	Nominal value $'000
Authorized:				
Ordinary shares of $0.10 each	**3,000,000**	**300,000**	3,000,000	300,000
Ordinary shares, issued and fully paid:				
At 1 January	**1,628,411**	**162,841**	830,974	83,097
New shares issued during the year	**155,000**	**15,500**	797,437	79,744
At 31 December	**1,783,411**	**178,341**	1,628,411	162,841

(i) On 6 February 2009, the Company allotted and issued 564,102,563 ordinary shares of $0.10 each at the issue price of $0.39 per share to settle the consideration for a business combination, details of which are set out in note 32.

(ii) On 6 February 2009, the Company allotted and issued 233,334,000 ordinary shares of $0.10 each at the issue price of $0.30 per share for cash.

(iii) On 10 May 2010, the Company allotted and issued 155,000,000 ordinary shares of $0.10 each at the issue price of 0.85 per share. The proceeds were used to settle the consideration for the acquisition of the 93% equity interest in Foshan City An Ning Company Limited. Details of the acquisition are set out in note 31.

(c) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operation. The reserve is dealt with in accordance with the accounting policy set out in note 1(u).

27 CAPITAL AND RESERVES

(e) Reserve fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the equity holders of the subsidiary. Reserve fund can only be used to make good losses, if any, and for increasing paid-in capital.

(f) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held and other financial instruments at the end of the reporting period, and is dealt with in accordance with the accounting policy set out in note 1(e).

(g) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments.

(h) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $1,138,000 (2009: $16,343,000). No final dividend per ordinary share was proposed after the end of the reporting period (2009: nil).

(i) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

27 CAPITAL AND RESERVES

(i) Capital management

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and obligations under finance leases but excludes redeemable preference shares) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

During 2010, the Group's strategy, which was unchanged from 2009, is to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratios at 31 December 2010 and 2009 are as follows:

	2010 **$'000**	2009 $'000
Current liabilities:		
Trade and other payables	**361,291**	169,366
Bank loans	**109,294**	84,042
	470,585	253,408
Add: Proposed dividends	**–**	–
Adjusted net debt	**470,585**	253,408
Total equity	**849,184**	871,864
Less: Proposed dividends	**–**	–
Adjusted equity	**849,184**	871,864
Adjusted net debt-to-equity ratio	**55%**	29%

Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practises used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2010, the Group has no certain concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the date of financial position of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the date of financial position) and the earliest date the Group can be required to pay:

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(b) Liquidity risk

The Group

	2010 Carrying amount $'000	**2010** Total contractual undiscounted cash flow $'000	**2010** Within 1 year or on demand $'000	2009 Carrying amount $'000	2009 Total contractual undiscounted cash flow $'000	2009 Within 1 year or on demand $'000
Trade and other payables	**361,291**	**(361,291)**	**(361,291)**	169,366	(169,366)	(169,366)
Bank loans	**109,294**	**(112,333)**	**(112,333)**	84,042	(85,761)	(85,761)
	470,585	**(473,624)**	**(473,624)**	253,408	(255,127)	(255,127)

The Company

	2010 Carrying amount $'000	**2010** Total contractual undiscounted cash flow $'000	**2010** Within 1 year or on demand $'000	2009 Carrying amount $'000	2009 Total contractual undiscounted cash flow $'000	2009 Within 1 year or on demand $'000
Trade and other payables	**1,922**	**(1,922)**	**(1,922)**	2,076	(2,076)	(2,076)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(c) Interest rate risk

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the date of financial position.

	2010		2009	
	Effective interest rate %	**One year or less $'000**	Effective interest rate %	One year or less $'000
Variable rate borrowings:				
Bank loans	**5.34%**	**109,294**	5.60%	84,042

(ii) Sensitivity analysis

As at 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately $929,000 (2009: $714,000). Other components of equity would not be affected by the changes in interest rates.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the dates of financial position and had been applied to the exposure to interest risk for financial investments in existence at those dates.

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries, Dezhong, Feng Liao Xing, Guangdong Medi-World and Luya, mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and be reflected in the exchange reserve.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 18), which are listed on the Stock Exchange of Shenzhen, the PRC. The available-for-sale investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(e) Equity price risk

The following table indicates the approximate change in the Group's equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the date of financial position.

	Increase/ (decrease) in share price	**2010 Effect on equity $'000**	2009 Effect on equity $'000
Change in market price of equity investments:			
– increase	20%	**1,471**	796
– decrease	(20%)	**(1,471)**	(796)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the date of financial position and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual date of financial position. The analysis is performed on the same basis for 2009.

(f) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the date of financial position across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(f) Fair values

	2010			
	level 1	**level 2**	**level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Assets				
Available-for-sale equity securities:				
– Listed in the PRC	**8,653**	**–**	**–**	**8,653**
– Unlisted financial instruments, at fair value	**–**	**31,003**	**–**	**31,003**
Total	**8,653**	**31,003**	**–**	**39,656**

29 COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	$'000	$'000
Contracted for	**25,658**	7,502

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2010	2009
	$'000	$'000
Within 1 year	**5,892**	360
After 1 year but within 5 years	**12,168**	–
	18,060	360

Operating lease payments represent rentals payable by the Group for its office premises. The lease was negotiated for an average term of two years with fixed rental. The lease did not include any contingent rentals.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Group's directors as disclosed in note 7, is as follows:

	2010 **$'000**	2009 $'000
Short-term employee benefits	**6,701**	4,816
Post-employments benefits	**108**	110
	6,809	4,926

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Other related party transactions

During the year ended 31 December 2010, the following parties were considered as related party transaction of the Group as they are under the control of key management personnel of the Group:

Name of related party	**Relationship before 15 November 2010**	**Relationship from 15 November 2010 to 30 December 2010**
Foshan Nanhai New & Specific Pharmaceutical Co., Ltd. ("Nanhai New & Specific Pharmaceutical")	Effectively 25.5% owned by Mr. Yang Bin and 25.5% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company
Foshan Nanhai Pharmaceutical Group Pharmaceutical Co., Ltd. ("NPGP")	Effectively 25.5% owned by Mr. Yang Bin and 25.5% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company
Foshan Nanhai Yikang Pharmaceutical Co., Ltd. ("Nanhai Yikang")	Effectively 25.5% owned by Mr. Yang Bin and 25.5% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company
Foshan Nanhai Pharmaceutical Group Co., Ltd. ("Nanhai Pharmaceutical Group")	Effectively 25.5% owned by Mr. Yang Bin and 25.5% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company
Hanyu Pharmaceutical	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company

30 MATERIAL RELATED PARTY TRANSACTIONS

(b) Other related party transactions

	Year ended 31 December	
	2010	2009
	$'000	$'000
Sale of goods to Nanhai New & Specific Pharmaceutical	**9,405**	831
Sale of goods to NPGP	**4,154**	–
Sale of goods to Nanhai Yikang	**7,090**	–
	20,649	831
Acquisition of the entire interest of a subsidiary from Nanhai Pharmaceutical Group	**–**	4,540

As at 31 December 2010, the Group's trade receivable balances due from related parties are as below:

	Year ended 31 December	
	2010	2009
	$'000	$'000
Nanhai New & Specific Pharmaceutical	**2,213**	122
NPGP	**1,252**	–
Nanhai Yikang	**1,361**	–
	4,826	122

As at 31 December 2010, bank loans of $49,358,000 (2009: $59,511,000) were guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin, two executive directors of the Company. Bank loan of $15,278,000 (2009: $6,360,000) was secured by the interests in leasehold land of Hanyu Pharmaceutical, previously known as Foshan Winteam Pharmaceutical Co., Ltd., a company in which Mr. Yang Bin and Mr. Xu Tiefeng jointly hold 72.7% equity interest, and bank loan of $23,504,000 (2009: $nil) was guaranteed by Nanhai Yikang, a company in which Mr. Yang Bin and Mr. Xu Tiefeng jointly hold 100% equity interest. (see note 24).

31 ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTERESTS

(a) Acquisition of Foshan City An Ning Company Limited ("An Ning").

In April 2010, the Group acquired 93% equity interests in An Ning with cash consideration of RMB116,000,000 (approximately equivalent of $131,953,000), the assets of which were the 49% equity interest in Dezhong and cash in bank of $22,000 as of the acquisition date. The transaction cost for the acquisition was $1,900,000. Through the acquisition, the Group increased its effective equity interest in Dezhong from 51% to 96.57%. The carrying amount of Dezhong's net assets in the consolidated financial statements on the date of the acquisition was $262,756,000. The Group recognised a decrease in non-controlling interests of $119,738,000 and a decrease in reserves of $15,673,000 including deferred tax of withholding tax in the amount of $1,558,000.

The following table summarises the effect of changes in the Group's equity interest in Dezhong:

	Year ended 31 December 2010 $'000
Equity interest in Dezhong at beginning of year	**118,836**
Effect of increase in Dezhong's equity interest	**119,738**
Share of comprehensive income during the year ended 31 December 2010	**32,025**
Equity interest in Dezhong at the end of the year	**270,599**

31 ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTERESTS

(b) Acquisition of Foshan Zhong Hong Co., Ltd ("Zhong Hong").

In December 2010, the Group acquired 95.57% equity interest in Zhong Hong with cash consideration of RMB 120,000,000 (approximately equivalent of $140,600,000), the assets and liabilities of which were the 49% equity interests in Feng Liao Xing, cash in bank of $435,000 and other creditors of $435,000 as of the acquisition date. The transaction cost for the acquisition was $736,000. The consideration has been settled subsequently after the reporting period date. Through the acquisition, the Group increased its effective equity interest in Feng Liao Xing from 51% to 97.83%. The carrying amount of Feng Liao Xing's net assets in the consolidated financial statements on the date of acquisition was $175,309,000. The Group recognized a decrease in non-controlling interest of $82,096,000 and a decrease in reserves of $60,420,000 including deferred tax of withholding tax in the amount of $1,180,000. The following table summarises the effect of changes in the Group's equity interest in Feng Liao Xing:

	Year ended 31 December 2010 $'000
Equity interest in Feng Liao Xing at the beginning of year	**74,496**
Effect of increase in Feng Liao Xing's equity interest	**82,096**
Share of comprehensive income during the year ended 31 December 2010	**14,913**
Equity interest in Feng Liao Xing at the end of the year	**171,505**

32 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

32 ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Impairment

If circumstances indicate that the net book value of property, plant and equipment, goodwill, intangible assets and interests in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price, material costs and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, expected changes to selling prices and operating costs, and discount rate.

In addition, the Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition.

(Expressed in Hong Kong dollars unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued of certain amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Revised HKAS 24, Related party disclosures	1 January 2011
HKFRS 9, Financial Instruments	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Amendments to HKAS 12, Income taxes	1 January 2012

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's results of operations and financial position.

34 COMPARATIVE FIGURES

The following items in the comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.

(i) The carrying amount of investment property in the amounts of $4,762,000 has been reclassified to interest in leasehold land held for own use under operating leases to reflect more appropriately the substance of the asset and conform with the current year's presentation.

(ii) The carrying amount of technical know-how of $64,028,000 under intangible asset has been reclassified to trademark and distribution network amounted to $11,476,000 and $52,552,000 respectively, to reflect more appropriately, the nature of intangible assets and conform with the current year's presentation.

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2006 $'000	2007 $'000	2008 $'000	2009 $'000	**2010 $'000**
Results					
Turnover					
Pharmaceutical business	109,627	355,880	443,533	670,175	**939,178**
Electricity business	721,751	–	–	–	**–**
	831,378	355,880	443,533	670,175	**939,178**
Profit/(loss) from operations					
Pharmaceutical business	477	34,164	54,783	95,786	**119,061**
Electricity business	(459,078)	–	–	–	**–**
	(458,601)	34,164	54,783	95,786	**119,061**
Finance costs					
Pharmaceutical business	(6,358)	(1,258)	(1,378)	(5,321)	**(3,831)**
Electricity business	(15,476)	–	–	–	**–**
	(21,834)	(1,258)	(1,378)	(5,321)	**(3,831)**
Profit/(loss) before taxation					
Pharmaceutical business	(5,881)	32,906	53,405	90,465	**115,230**
Electricity business	(474,554)	–	–	–	**–**
	(480,435)	32,906	53,405	90,465	**115,230**
Income tax					
Pharmaceutical business	(510)	(7,871)	(4,938)	(22,239)	**(29,151)**
Electricity business	49,251	–	–	–	**–**
	48,741	(7,871)	(4,938)	(22,239)	**(29,151)**
Profit/(loss) for the year					
Pharmaceutical business	(6,391)	25,035	48,467	68,226	**86,079**
Electricity business	(425,303)	–	–	–	**–**
	(431,694)	25,035	48,467	68,226	**86,079**
Attributable to:					
– Equity shareholders of the Company	(337,401)	8,396	20,330	44,054	**60,925**
– Minority interests	(94,293)	16,639	28,137	24,172	**25,154**
	(431,694)	25,035	48,467	68,226	**86,079**
Earnings/(loss) per share					
Basic	(40.64) cents	1.01 cents	2.45 cents	2.82 cents	**3.53 cents**
Diluted	N/A	N/A	N/A	N/A	**N/A**

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2006 $'000	2007 $'000	2008 $'000	2009 $'000	**2010** **$'000**
Assets and liabilities					
Other property, plant and equipment	146,858	141,817	135,763	247,352	**237,500**
Investment properties	7,663	7,963	8,165	2,543	**3,471**
Interests in leasehold land held for own use under operating leases	24,127	25,349	26,305	97,200	**192,544**
Construction in progress	–	144	1,364	14,396	**41,745**
Intangible assets	98,224	90,701	78,706	135,127	**115,174**
Goodwill	123,437	132,738	141,037	186,197	**192,578**
Other financial assets	1,103	3,953	2,743	5,828	**9,840**
Deferred tax assets	–	–	–	6,045	**12,612**
Net current assets	87,067	128,568	189,109	240,062	**111,623**
Total assets less current liabilities	488,479	531,233	583,192	934,750	**917,087**
Deferred tax liabilities	(37,709)	(33,805)	(28,078)	(55,261)	**(58,312)**
Deferred income on government grants	–	–	–	(7,625)	**(9,591)**
Net assets	450,770	497,428	555,114	871,864	**849,184**
Capital and reserves					
Share capital	83,015	83,097	83,097	162,841	**178,341**
Reserves	210,243	241,068	276,207	523,273	**657,318**
Total equity attributable to equity shareholders of the Company	293,258	324,165	359,304	686,114	**835,659**
Non-controlling interests	157,512	173,263	195,810	185,750	**13,525**
Total equity	450,770	497,428	555,114	871,864	**849,184**