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 2011

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

NOMINATION COMMITTEE

(On 23 March 2012, the Board has approved the establishment of nomination committee with effect from 1 April 2012.)

REGISTERED OFFICE

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China Insurance Group Building
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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

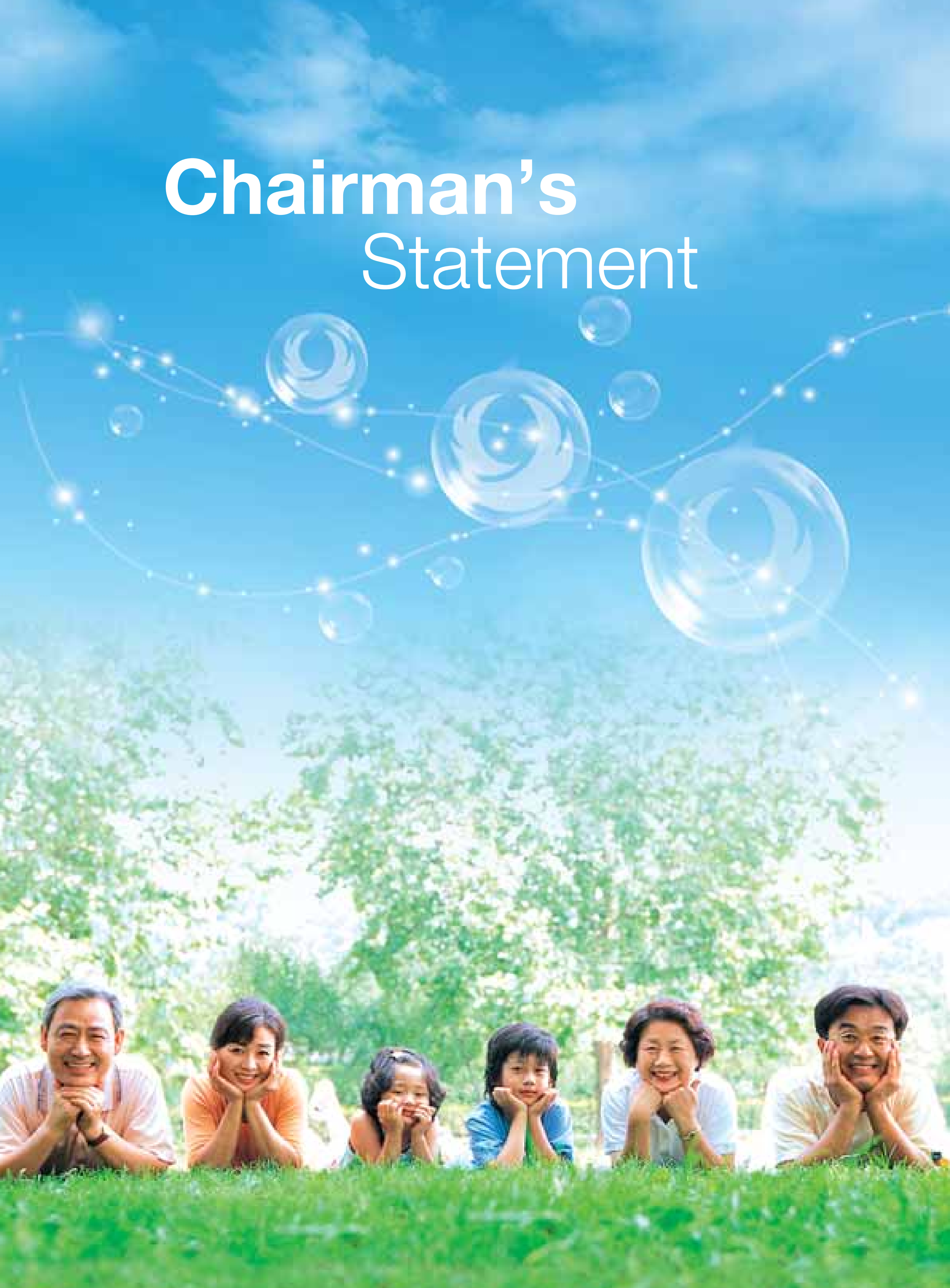
PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
(Foshan Branch)
China Merchants Bank Co.,Ltd. (Foshan Branch)
Foshan Shunde Rural Commercial Bank Co., Ltd.

WEBSITE

http://www.winteamgroup.com

Chairman's Statement



CHAIRMAN'S STATEMENT

FIVE-YEAR RESULTS IN THE PHARMACEUTICAL INDUSTRY

Year 2011 marked the fifth year of our operation in the pharmaceutical industry. Through successful acquisitions and consolidations, Winteam Pharmaceutical Group Limited (the "Company") and its subsidiaries (the "Group") have delivered promising results over the last five years. Turnover recorded a compound annual growth rate (CAGR) of 30.0% to HK$1,015,935,000 in 2011 from HK$355,880,000 in 2007. Profit from operations rose at a CAGR of 31.5% to HK$102,144,000 in 2011 from HK$34,164,000 in 2007. Basic earnings per share also grew at a CAGR of 41.4% to HK$4.04 cents in 2011 from HK$1.01 cents in 2007, while total equity attributable to equity shareholders went up to 948,738,000 in 2011 from HK$ 324,165,000 in 2007, representing a CAGR of 30.8%.

According to the National Bureau of Statistics of China, the gross output value of the pharmaceutical industry recorded a CAGR of 23.1% in the past five years whereas the realized gross profit also posted a CAGR of 28.1% for the period.

SOLID FOUNDATION FOR FUTURE SUSTAINABLE DEVELOPMENT

In the past five years, the Group has laid a solid foundation for and niches in sustainable growth in various aspects, such as product resources, sales networks, production technology, production capacity and administration efficiency.

The Group has a strong product line comprising 322 products covering Chinese patent medicines, chemical and bio-drugs, of which over 20 products are national exclusive and 9 are the State's protected traditional Chinese varieties. 62 products and varieties of the Group including two exclusive products, namely Bi Yan Kang Tablet (鼻炎康片) and Yu Ping Feng Granule (玉屏風顆粒), have been ranked among the National Essential Drugs List. There are 95 products of the Group included on the National Drug List for Basic Medical Insurance while 52 products are listed on the secondary list, among which Bi Yan Kang Tablet (鼻炎康片) and Yu Ping Feng Granule (玉屏風顆粒), Gandakang Tablet (肝達康片), Bai Ling Tablet (白靈片) and Wuji Bai Feng Granule (烏雞白鳳顆粒) are the exclusive products on the list. The Group has been advocated for pharmaceutical manufacturing for over 400 years with an access to a range of traditional Chinese medicine secret formulas, including Po Chai Pills (保濟丸), Da Huo Luo pills (大活絡丸), Shaolin Dieda Herbal Plaster (少林跌打止痛膏), Yuanjilin Herbal Tea (源吉林甘和茶), Maoji Medical Wine (婦科毛雞酒), Foshan Ginseng Pills (佛山人參再造丸) and Liang Caixin Pills (梁財信跌打丸). These products have established a sound reputation with market potential in the past 400 years.

A majority of the Group's prescription drugs and OTC products have been distributed to hospitals and retail pharmacies across the country by our sales team with an aggregate of approximately 1,710 staff. The networks of national and regional dealers are responsible for logistics and delivery of our products. The sales model of this self-owned sales network is well supported in terms of operation management, marketing training, business channels and administration effectiveness, which in turn improve our performance in control over end-market sales, price maintenance and professional promotion. In 2007, the Group set up the professional marketing department which comprises a team of some 50 experts to promote prescription drugs through application of their specialized knowledge. Currently, the Group has an extensive sales network including 1,500 distributors and agents and approximately 1,000 large-scale retail chain drug stores with which we have established strategic cooperation. The wide spread sales network has enabled presence of our products in over 10,000 medical institutions.

The Group possesses sound technical experience in the extraction of Chinese medicines, preparation of modern Chinese medicines, sustained or controlled release preparation, manufacturing of traditional Big Candid Pills (大蜜丸) and enhancement of quality. The sustained-release technology for Nifedipine Sustained-release Tablet (硝苯地平緩釋片) and Fexofenadine/Pseudophedrine HCI Sustained Release Capsules (非索偽麻緩釋小丸), as well as the combined use of advanced technologies of dry granulating and double-layer pressing pellet to the VC Yinqiao Tablet (維C銀翹片) and Bi Yan Kang Tablet have been proved to raise standards of product quality. Our fully automatic wax coating technology breakthrough in Big Candied Pills has marked a new era in the sealing process of the candied pills in the State. The Group is proud to present the above technology innovation of our subsidiaries which has fostered development of the industry and provided technical support to ensure manufacturing of quality products and facilitate process of brand building. These have also laid solid grounds and have given rise to inspiration for further development of technology insight and new products.

The Group owns manufacturing bases in Foshan city of Guangdong Province and Jining city of Shandong Province, with an annual production capacity of 3 billion tablets and 200 million capsules respectively. For granule, medical wine, antibiotics and oncology powder for injection, the annual production capacity reached 200 million packs, 14 million bottles and 100 million jabs correspondingly.

In 2009, the Group has established a market access department which has been tracking the latest industry policies promulgated by the State for the last three years. The department has conducted substantial analysis and preparation to maintain the pricing of key products, and to ensure inclusion of our key products on the National Essential Drugs List and the drug list for medical insurance, with an aim to devising a future development plan for the Group that can capitalize on the national policies and strategies.

LEVERAGE ON THE ADVANTAGES OF THE STATE'S ESSENTIAL DRUGS POLICY

Since the national essential drugs system became effective in August 2009 followed by over two years of implementation and development, the Healthcare Reform Office of the State Council announced in September 2011 the early implementation of the practice of full coverage medical insurance of lower income groups. In a circular issued by the Ministry of Health in 2012, emphasis were put on stepped-up efforts of essential drugs use, demonstrating the determination of the central government to administer the system, and providing further opportunities in the national essential drugs development.

About 22.0% products of the Group were included in the National Essential Drugs List or the Supplemental Essential Drugs List of provinces, accounting for about 47.1% of the turnover of the Group. Hence, the advancement of the national essential drugs system would exert a significant impact on the sustainable development of the Group.

LEADERSHIP INSIGHT AND STRATEGIC POSITION ON FUTURE DEVELOPMENT

The board of directors (the "Board") of the Company has laid out the blueprint for future sustainable growth based on the solid ground and edges formed in the past five years.

Our leadership insight is to conform to the industry development pattern, follow the guidelines on industrial policy guidelines of the State, strengthen the existing foundation of the Group, maintain our current position in the nation, and explore the origin of Chinese medicines. With the support of our core corporate values, we capture profit with scale, integrate innovation and inheritance, and seek organic growth and external expansion. Our enterprise setup and "Be Healthy with Winteam" is ready to create value for the shareholders and the society.

Our development mottos are to expand the time-honored brand through inheritance of 400 years traditional pharmaceutical wisdom, and to maximize traditional resources to become a legend of the industry. Our strategic position is to "be the frontrunner in new release technology, be the pioneer in inheritance of traditional pharmaceutical wisdom", which aligns with the supporting policies of the government. Currently, the Group has invested substantial resources in the new drugs that deploy sustained or controlled-release technology. Meanwhile, the Group has also explored and inherited the wisdom of traditional Chinese medicines for the past 400 years to expand in the Chinese medicine health industry. These projects have placed the Group at an advantageous position to benefit from the national policies that support the growth of the industry.

DIVIDEND

To celebrate the fifth anniversary of our operation in the pharmaceutical industry, the Board recommended the payment of a final dividend of HK$89,170,540.35 for the year ended 31 December 2011 (2010: Nil).

APPRECIATION

It has been half a decade in my role as Chairman of the Company and it is my great pleasure to witness the rapid development of the Group during these years. Under the precise strategy and leadership of the Board and dedication and contribution from all management and staff during the past five years, I have great confidence in the future prospects of the Group.

I have attained the age of retirement and will resign as Chairman of the Board with effect from 28 March 2012, but will remain as a non-executive director of the Company. Mr. Xu Tiefeng will be appointed as the Chairman of the Board. It is my great honor to chair the board for five years in a row, and I would like to take this opportunity to express my gratitude towards Shareholders and every Board member for the endured support and trust in the Company. I am confident that all directors will continue to contribute for the benefit of our Shareholders. I also believe that Mr. XU will certainly be able to lead the Group to the next level.

DU Richeng
Chairman

23 March 2012

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE

During the year under review, turnover of the Group increased by 8.2% to HK$1,015,935,000 from HK$939,178,000 in 2010. Gross profit rose by 4.7% to HK$548,406,000 from HK$523,904,000 in 2010, while gross profit margin decreased from 55.8% in 2010 to 54.0%, which is mainly due to the significant hike in the price of TCM materials. Excluding growth in procurement volume, price hike in TCM materials has increased our procurement cost by about HK$43,000,000, which accounted for 12.0% of the costs of materials.

Profit from operations decreased by 14.2% to HK$102,144,000 from HK$119,061,000 in 2010. Net profit attributable to equity shareholders was HK$72,072,000, representing an increase of 18.3% as compared to HK$60,925,000 in 2010, which is attributable to the successful completion of the acquisition of 93.0% equity interest in Foshan City An Ning Company Limited ("An Ning") and 95.57% equity interest in Foshan Zhong Hong Company Limited ("Zhong Hong") in April and December 2010 respectively. The Group's equity interest in Foshan Dezhong Pharmaceutical Company Limited ("Dezhong") increased to 96.57% from 51.0%, while the equity interest in Foshan Feng Liao Xing Pharmaceutical Company Limited ("Feng Liao Xing") also increased to 97.8% from 51.0% after the above two acquisitions. The above two acquisitions have contributed to the increase in profit attributable to the equity shareholders of the Company.

As at 31 December 2011, the balance of trade and other receivables was HK$346,891,000 (31 December 2010: HK$211,502,000), of which trade debtors (less: allowance for doubtful debt) amounted to HK$170,453,000 (31 December 2010: HK$141,097,000) and bills receivable amounted to HK$150,417,000 (31 December 2010: HK$46,312,000). Balance of trade debtors that aged within 3 months amounted to HK$148,465,000; balance that aged 3 to 6 months amounted to HK$15,022,000; and balance that aged more than 6 months amounted HK$6,966,000. Bills receivable were all bank acceptance, most of which with maturity within 3 months. Except for HK$11,349,000 were used as security for the bank loans of the Group, the remaining balance can be cash back before 30 June 2012 as general capital or used for dividend distributions.

INDUSTRY REVIEW

National Essential Drugs Policy

Reinforce and improve the National Essential Drugs System

The Ministry of Health issued the Key Health Task for 2012 on 2 February 2012, which emphasized that the scope of the National Essential Drugs System will be further expanded, and will formulate the administrative measures for the use of essential drugs by health care institutions. It is also stated that the "Guideline for the Clinical Application of National Essential Drugs (國家基本藥物臨床應用指南)" and "National Essential Drugs Prescription Catalogue (國家基本藥物處方集)" will be revised. The ministry will also consider formulating incentive policy to promote the use of essential drugs, so as to motivate other health care institutions to gradually stock and give priority in using essential drugs. In respect of the sourcing of essential drugs, the upholding principle is "to purchase in bulk, to purchase based on agreed price and volume, and to combine the tendering and sourcing function", as well as to make better arrangement for delivering drugs to rural and remote area.

Expanding the National Essential Drugs List

The National Essential Drugs List is now being revised. Chen Zhu (陳竺), minister of the Ministry of Health, stated on the National Drugs Supervision Meeting held on 20 December 2011 that the National Essential Drugs List should further expand in order to accommodate all drugs used by health care institutions. The expanded lists will be issued no later than 2012, which will help to increase the usage of essential drugs.

The stocking and using of essential drugs in county hospitals or above

As at 29 February 2012, the health administrative authorities of 10 provinces, such as Jiangxi, Jilin, Henan, have required secondary hospitals or above to stock and use essential drugs. Other provincial authorities will also issue policy sooner or later in 2012, setting out the required proportion of essential drugs for county hospitals or above, which may stimulate the sales of essential drugs substantially. Such policy has provided favorable condition for the expansion of essential drugs market.

Essential Drugs Policy of Guangdong Province

After 3 years of effort on promoting the use of essential drugs in Guangdong Province, the Essential Drugs System is now fully implemented, under which all primary health care institutions run by the government have stocked and used essential drugs. Such policy has provided a better environment for the promotion and marketing of essential drugs. Dezhong, Feng Liao Xing and Guangdong Medi-World Pharmaceutical Co. Ltd. (Guangdong Medi-World), all are subsidiaries of the Group, are well-known drugs enterprises in Guangdong Province which is an important market for the Group. In 2011, the Group's product sales in Guangdong Province represented 43.0% of the total sales of the Group. For this reason, the wider implementation of Essential Drugs Policy in Guangdong Province would be beneficial to the Group's development.

Under terms of essential drugs bidding invitation mode, only technical tender required for inexpensive drugs

The Terms of Tender for Essential Drugs in Guangdong Province 2011 (2011年廣東省基藥招標方案規定) stated that, in order to avoid vicious competition, only technical tender will be required for drugs listed in the inexpensive Essential Drugs List. Currently, tendering process is still ongoing. Several products of the Group had been included in the inexpensive drugs list. Sheng Tong Ping (Nifedipine Sustained release Tablet I), one of our key products, has solid market foundation in Guangdong Province. It has been listed in the inexpensive drugs list which will greatly increase our chance in winning the tender. It was proposed that this mode of tendering will be adopted in other provinces, and the implementation of the inexpensive drugs policy will help us in exploring the market for the Group's good and inexpensive TCM. Meanwhile, the Terms of Tender for Essential Drugs has clearly stated that some products may quote a price that is higher than the awarded price in 2009 based on factors, such as technology advancement. Therefore, it is expected that two of our exclusive essential drugs products, Yu Ping Feng Granule and Bi Yan Kang Tablet, can set a higher price for bidding as it has improved its technology level.

To explore and formulate policies and measures for the implementation of the Essential Drugs System in secondary hospitals or above

At the Guangdong Province Drugs Policy Meeting (廣東省藥品政策工作會議) held in May 2011, the Department of Health of Guangdong Province has emphasized the needs to deepen the enforcement of the Essential Drugs System, as well as the needs to explore and formulate appropriate policies and measures for the implementation of the Essential Drugs System in secondary hospitals or above. As the Group's products had a solid foundation in Guangdong market, it will bring huge benefits to the Group if such policies and measures are to be fully promoted in Guangdong.

BUSINESS REVIEW

Successful tenders in essential drugs

Since the State Council issued the "Guiding Opinions on Establishing and Regulating the Procurement System of Essential Drugs for Primary Health Care Institutions Run by the Government (Circular 56)"《建立和規範政府辦基層醫療衛生機構基本藥物採購機制的指導意見》(56號文) on 9 December 2010, there were a total of 23 provinces completed the essential drugs tender. The Group has 16 essential drugs participated in the tender and the success rate was 35.9%. Excluding the 4 products with lower sales, the overall success rate was as high as 51.0%, far exceeding the average level of approximately 18.2% for the top 100 pharmaceutical enterprises in the nation.

Our exclusive products Yu Ping Feng Granule and Bi Yan Kang Tablet have participated in the essential drugs tender of 23 provinces, and had won tenders in 21 provinces and 22 provinces respectively, representing a success rates of 91.3% and 95.6% respectively. Products which won tenders in more than 6 provinces include Shengmai capsule (生脈膠囊) (7 provinces), Berberine Hydrochloride Capsule (鹽酸小檗堿膠囊) (10 provinces), Chuang Xiong Cha Tiao Granule (川芎茶調顆粒) (9 provinces), An Gong pill (安宮牛黃丸) (6 provinces) and Po Chai pill (12 provinces).

As at 29 February 2012, a total of 6 provincial governments have not yet started the tender of essential drugs. Currently, essential drugs tender of Guangdong Province is in process.

Sales of Products

Analysis by National Essential Drugs:

	For the year ended 31 December		
	2011	2010	**Change**
	HK$'000	HK$'000	
Essential Drugs	478,388	356,920	34.0%
Non-Essential Drugs	537,547	582,258	-7.7%
Total	1,015,935	939,178	8.2%

Essential Drugs

The essential drugs of the Group mainly included respiratory system drug, nasal preparations and cerebrocardiovascular drug. Benefiting from the full implementation of the national system of essential drugs in primary health care institutions and a significant increase in usage volume of essential drugs, turnover of the Group's essential drugs during the year under review increased significantly to HK$478,388,000, representing an increase of 34.0% compared to that of HK$356,920,000 for the corresponding period of last year. The percentage of the turnover of essential drugs to the Group's total turnover increased to 47.1% from 38.0% for the corresponding period of last year.

Non-Essential Drugs

Turnover of non-essential drugs was HK$537,547,000, representing a decrease of 7.7% as compared to HK$582,258,000 for the corresponding period last year and accounting for 52.9% of the Group's total turnover. Non-essential drugs of the Group mainly included rheumatic diseases and traumatic injury drug, antibiotics and oncology drugs as well as other Chemical drugs and Chinese patent medicines.

Analysis by Types of Medicines:

	For the year ended 31 December		
	2011	2010	**Change**
	HK$'000	HK$'000	
Respiratory system drug and nasal preparations	442,942	341,937	29.5%
Cerebro-cardiovascular drug	151,975	141,441	7.4%
Rheumatic diseases and bone injury drug	132,438	71,344	85.6%
Antibiotics	66,165	92,012	-28.1%
Oncology drug	19,581	14,752	32.7%
Other products	202,834	277,692	-27.0%
Total	1,015,935	939,178	8.2%

Respiratory system drug and nasal preparations

During the year under review, sales of respiratory system drug and nasal preparations were HK$ 442,942,000, representing an increase of 29.5% compared to the corresponding period last year, which is mainly due to the significant growth in the sales of Yu Ping Feng Granule. Sales of respiratory system drug and nasal preparations accounted for 43.6% of the turnover of the Group.

Yu Ping Feng Granule mainly targeted at secondary hospitals or above. During the year under review, Yu Ping Feng Granule has been successfully sold to 1,316 secondary hospitals or above, covering 17.0% of secondary hospitals or above in China and representing an increase of 66.6% compared to that of 790 hospitals in the corresponding period last year. Driven by the health care institutions, sales of Yu Ping Feng Granule in OTC retail market also recorded robust growth. Sales of Yu Ping Feng Granule increased significantly by 65.4% compared to the corresponding period last year.

The Group's core marketing strategy for Bi Yan Kang Tablet was to establish strategic cooperation with large-scale pharmaceutical chains, and at the same time to increase our penetration rate in primary health care institutions. During the year under review, the strategy has achieved substantial progress. The Group signed strategic partnership agreements with more than 1,000 large-scale drug retail chains nationwide and Bi Yan Kang Tablet was included in the Strategic Cooperation Product List of top retail stores, thus enabling us to achieve breakthrough in maintaining reasonable price, securing better display area, and increase in the rate of first recommendation, etc. The acceleration in implementing the National Essential Drugs System also provided a good opportunity for us to the increase the penetration rate of Bi Yan Kang in primary health care institutions, and has successfully penetrated into over 12,000 primary health care institutions, representing an significant increase of 2.5 times compared to about 3,400 health care institutions for the corresponding period last year. This has become the new driving force for the rapid growth in sales of Bi Yan Kang Tablet in the future. Sales of Bi Yan Kang Tablet grew by 1.8% compared to that of the corresponding period last year.

Rheumatic diseases and traumatic injury drug

During the year under review, sales of rheumatic diseases and traumatic injury drug was HK$132,438,000, representing a significant growth of 85.6% compared to the corresponding period last year, and accounted for 13.0% of the Group's turnover. This type of TCM was the Group's featured products and includes main products such as Feng Liao Xing Rheumatism Medicinal Wine and exclusive external products for traumatic injury such as Shaolin Dieda Herbal Plaster (少林跌打止痛膏), 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). The significant growth of rheumatic diseases and traumatic injury drug was mainly due to the effort of the Group in increasing the sales strategy for this type of drug since the second half of 2010. Through redesigning the packaging and adjusting product prices and sales channels for rheumatic diseases and traumatic injury products, the products have successfully penetrated into the primary medical market and retail market at county and rural village. Among which, sales of Feng Liao Xing Rheumatism Medicinal Wine increased significantly by 93.6% as compared to the corresponding period last year. Capitalising on the strong market foundation in Hunan Province and Jiangxi Province, our sales coverage for Feng Liao Xing Pheumatism Medical Wine has fully extended to county, village and town levels through rationalizing and integrating sales channels. Building on the core sales area in Guangdong Province, we have successfully tapped into some ten more populated counties in Hunan Province and Jiangxi Province in 2011, leading to a rapid growth in sales, and have gradually explored new markets of Northern China, Northeastern China and Eastern China, thus laid down a solid foundation for the sustainable rapid growth of Feng Liao Xing Rheumatism Medicinal Wine.

Cerebro-cardiovascular drug

During the year under review, sales of cerebro-cardiovascular drug was HK$151,975,000, representing an increase of 7.4% compared to the corresponding period last year, and accounted for 15.0% of the Group's turnover. Cerebro-cardiovascular drug was one of the key product lines of the Group. As the nation lowered the prices of cerebro-cardiovascular drug, the selling price of our major product Sheng Tong Ping (Nifedipine Sustained-release Tablet I) has decreased. However, Sheng Tong Ping has successfully won the tender in the centralized procurement of essential drugs of Shanghai in May 2011, thus secured its market shares Shanghai which is an important market for us. In addition, as Sheng Tong Ping was accredited as Self-Innovated Product of Guangdong Province and was included in the inexpensive drugs list, we can enjoy more advantages in the centralized essential drugs procurement of Guangdong Province.

In 2011, the Group has based on the existing strong sales coverage of Sheng Tong Ping, to vigorously explore the strategic cooperation opportunity with chain medicine stores in the niche markets in respect of the new specification of Sheng Tong Ping, and has achieved some preliminary results. In 2011, Sheng Tong Ping was sold to 3,465 county hospitals or above, representing an increase of 23.8% compared to 2,798 institutions in 2010.

During the year under review, the Group also launched two new products: (1) Yishuang (依雙) (Compound Eualapril) which is a drug to lower blood pressure; and (2) Ruizhi (銳旨) (Nicotinic Acid Sustained Release Capsules) which is a drug to reduce blood fats. At present, nicotinic acid drug is one of the most common clinical-used blood fats lowering drugs. Ruizhi is an exclusive product and health insurance class B type in China. It adopted a brand new technology of multi-layer compound isolation sustained release film which facilitates a more stable and slow release of medicines with enhanced safety and efficacy and fewer side effects, and is currently the only blood fat lowering drug that can lower LP(a) (independent risk factor for coronary). Ruizhi also won the tender in the centralized procurement of essential drugs of Shanghai.

In addition, the Group will launch "New Sheng Tong Ping" (Nifedipine Sustained release Tablet III), which is a more advanced drug with better performance in lowering blood pressure. It can help to enlarge the market scale of the Group's Cerebro-cardiovascular drug.

Antibiotics

During the year under review, sales of antibiotics were HK$66,165,000, representing a decrease of 28.1% as compared to the corresponding period of last year. Such drop was mainly due to the introduction of a State policy that restricted the use of antibiotics. Sales of antibiotics accounted for 6.5% of the Group's turnover. In 2011, the only type of antibiotics marketed by the Group is Gaode (Cefodizime Sodium for injection) which had been used by 246 secondary hospitals or above, compared to 564 hospitals in 2010.

Oncology drug

During the year under review, sales of oncology drug were HK$19,581,000, representing an increase of 32.7% as compared to the corresponding period of last year and accounted for 1.9% of the Group's turnover. The only type of oncology drug marketed by the Group is Sha Pei Lin (Group A Streptococcus for injection), which is mainly used to cure ascites caused by malignant neoplasm and as ancillary treatment of tumors in hospitals in the second or upper level. The number of hospitals using Sha Pei Lin increased by 58.5% to 233 hospitals in 2011 from 147 hospitals in 2010.

Other products

During the year under review, sales of other products were HK$202,834,000, representing a decrease of 27.0% as compared to the corresponding period of last year. Due to the significant price hike in TCM materials in the past year, the Group adjusted its product mix by reducing or ceasing the production of some non-leading products to maintain our overall gross profit margin.

Integration of marketing structures

During the year under review, the Group has effectively integrated the end-market sales resources of Guangdong Medi-World, Dezhong and Feng Liao Xing. Provincial managers have been assigned to be accountable for the sales in their respective provinces. The sales structure has been divided into prescription, OTC and commercial (including distribution) sales in order to reinforce the overall marketing management and to realize sharing of end-market resources. Sales performance evaluation has been fully implemented and functions of each sales team have been clearly defined to increase responsiveness to the market. These measures have laid a solid foundation for further growth in the sales of the Group. After the integration, sales effectiveness of the sales staff in average terms has been greatly improved.

Throughout the year under review, the Group have evaluated marketing resources for all products and classified 286 products into six categories, including strategic development products, profit-making products, featured development products, essential drug breakthrough products, sole and jointly devised products, as well as reserve products. The classification has pointed to a clearer development strategies of every product and as an effective guidance to put forth the marketing strategies.

Brand assets evaluation has also been carried out to define branding strategies during the year under review. "Dezhong" brand has inherited the development of modern Chinese patent medicine and general drugs, while the Cerebro-cardiovascular brand of "Sheng Tong Ping" and "Sheng Tong Luo (聖通絡)" would represent the development of the Group's new products under moderate release technology, "Foshan" would become the major brand for Lingnan Chinese patent medicine while other quality subsidiary brands like "Feng Liao Xing " and "Yuanjilin" would lend strong support to the "Foshan" brand.

Research and Development

During the year under review, several R&D projects of the Group were included in the technology development plans across all levels, including province, city. Approval of Aspirin Paracetamol and Caffeine Tablet which cures migraine headache has been extended, while the technology transfer of Ruizhi and approval for production had been completed and obtained. Meanwhile, application for enhancement of standard of Gaode (Cefodizime) had been filed. These moves are expected to increase competitiveness of these three products and lay solid grounds for market expansion.

Meanwhile, our national exclusive products Fexofenadine/Pseudophedrine Sustained-release Capsule (非索偽麻緩釋小丸膠囊) (Category III New Chemical Drug), Yao Tong Kang Granule (腰痛康顆粒) (Category VI New Traditional Chinese Medicine) and Nifedipine Sustained-release Tablet III (硝苯地平緩釋片(III)) are now under evaluation and testing by Center for Drug Evaluation, SFDA. Besides, Gaode (Cefodizime Sodium) (高德(頭孢地嗪)). API, our Group's product produced under contract manufacturing through technology co-operation, is now preparing for the new GMP certification. Meanwhile, the Originator Product Reassessment (International Advance Level) Project for our key product Sheng Tong Ping (Nifedipine Sustained-release Tablet I) (聖通平(硝苯地平緩釋片I)) and the Cerebro-cardiovascular Controlled-released and Modified Release Preparation Project approved in 2012 is progressing smoothly. All of these projects can help to enhance the Group's competitiveness.

Gaoming Base

Construction of the Gaoming TCM extraction project commenced in October 2010 and the main structure of TCM extraction workshop and medicines materials pre-processing workshop had been completed. Currently, the interior furnishing is underway. The Gaoming facility is expected to realize the production capacity of processing 20,000 tonnes of TCM materials and 80 million packets of TCM drinking pills upon completion and will increase significantly the Group's production capacity.

Growth Strategies

Growth strategies of existing products

Our 2012 strategies will be focusing on specific products, marketing and management. Major products such as Yu Ping Feng Granule, Sheng Tong Ping, Bi Yan Kang Tablet, Feng Liao Xing Medicinal Wine and Ruizhi would be our main focus. As for marketing strategies, emphasis will be on the development for and sales to ranked health care institutions, while extending coverage of essential drugs among primary health care institutions. We will also put on OTC and cooperation with mainstream chain stores to stabilize market prices, maintain and increase coverage of end-market retailing. For management aspect, focus will be on performance evaluation of sales team at all levels and enhancement of the ability of provincial managers on integration management.

Benefiting from the nation's policy to promote the application of essential drugs, the Group will increase coverage of two exclusive essential drug products, namely Yu Ping Feng Granule and Bi Yan Kang Tablet, in secondary hospitals or above and primary health care institutions. In 2012, the coverage of Yu Ping Feng Granule in second and upper level hospitals will be extended from around 1,300 hospitals to around 1,600 hospitals in 2011, and from around 5,000 primary health care institutions to around 10,000 institutions. Meanwhile, coverage of Bi Yan Kang Tablet in second and upper level hospitals will be extended from around 300 hospitals to around 600 hospitals, and from around 12,000 primary health care institutions to around 20,000 institutions.

Implementation of merger and acquisition

The Group will select target enterprises which have unique types of products and appropriate market platform for mergers and acquisitions, with the aim of supplementing the Group' product lines in cerebro-cardiovascular drug, modified release technology products, oral cephalosporin products and oncology drug, optimizing product mix and expanding our marketing network and sales scale. Meanwhile, the Group will also consider acquisition of new businesses in addition to its key product mix such as biological medicines to seek for new growth engines in operation.

FINANCIAL REVIEW

Turnover

For the year under review, the Group's turnover increased by 8.2% to HK$1,015,935,000 from HK$939,178,000 for the corresponding period of last year. The increase in sales was the result of the Group's successful strategy in expanding products coverage in primary health care institutions, and formation of partnerships with strategic distributors and drug chains to increase its OTC retail market coverage and penetration.

Cost of Sales and Gross Profit Margin

For the year under review, the Group's cost of sales was HK$467,529,000, representing an increase of 12.6% as compared to HK$415,274,000 for the corresponding period of last year. Direct raw materials, direct labor and production overhead accounted for approximately 76.7%, 11.3% and 12.0% of the total cost of sales respectively, as compared to 75.6%, 10.5% and 13.9% for the corresponding period of last year. The Group's gross profit margin reduced to 54.0% from 55.8% in 2010 due to the significant price hike in TCM materials which exerted pressure on the cost of sales. However, the Group adjusted the product mix by reducing or ceasing the production of some non-leading products with low gross profit margin and managed to minimize the adverse effect caused by the price rise in TCM materials.

Other Revenue

For the year under review, the Group's other revenue was HK$12,306,000, representing a decrease of approximately 7.8% as compared to HK$13,348,000 for the corresponding period of last year. Such decrease was mainly attributable to the decrease of government grants by HK$403,000, the decrease of HK$427,000 of interest income as well as the decrease of rental income and other income by HK$212,000 as compared to last year.

Other Net Income

For the year under review, the Group's other net income was HK$625,000, representing a decrease of 93.1% as compared to HK$9,034,000 for the corresponding period of last year. The reason for such decrease was that a one-off gain of HK$8,774,000 on the disposal of the land and buildings of the old factory in Guangdong Medi-world was recorded as other net income last year, and no similar gain was realized during the year under review.

Sales and Distribution Costs

During the year under review, the Group's sales and distribution costs amounted to HK$328,642,000 (2010: HK$317,161,000), which mainly consisted of advertising, promotion and traveling expenses of HK$221,094,000, salary expenses of sales and marketing staff of HK$62,021,000, distribution and logistics costs of HK$13,368,000 and other sales and distribution costs of HK$32,159,000. The 3.6% increase in sales and distribution costs as compared to last year was due to the fact that the Group allocated more resources to develop strong product portfolios, and improve nationwide marketing and sales capabilities, so as to increase our essential drugs coverage in primary health care institutions.

Administrative Expenses

During the year under review, the Group's administrative expenses amounted to HK$130,551,000 (2010: HK$110,064,000). Such expenses mainly comprised staff salary of HK$36,960,000, depreciation and amortization of HK$8,323,000, expenses for product research and development of approximately HK$41,506,000, office rental cost and other expenses of approximately HK$43,762,000. The increase in administrative expenses was mainly attributable to the increase of research and development costs and salary expenses of administrative staff by HK$13,506,000.

Profit from Operations

During the year under review, the Group's profit from operations was HK$102,144,000, representing a drop of 14.2% as compared to HK$119,061,000 for the corresponding period of last year. The operating profit ratio (defined as the profit from operations divided by the total turnover) decreased to approximately 10.1% from 12.7% for the corresponding period of last year.

Finance Costs

During the year under review, the Group's finance costs amounted to HK$7,689,000 (2010: HK$3,831,000) and such increase was mainly due to increase in the Group's bank borrowings to approximately HK$340,570,000 (31 December 2010: HK$109,294,000). The effective interest rate for the loans was 6.23% (31 December 2010: 5.34%).

Earnings per share

During the year under review, the basic earnings per share was HK$4.04 cents, representing an increase of 14.4% as compared to HK$3.53 cents for the corresponding period of last year. The increase in basic earnings per share was due to the increase of 18.3% in the profit attributable to equity shareholders, which amounted to approximately HK$72,072,000 (2010: HK$60,925,000).

Liquidity and Financial Resources

As at 31 December 2011, the Group's current assets amounted to approximately HK$709,510,000 (31 December 2010: HK$592,365,000), including cash, cash equivalents and deposits with banks of approximately HK$47,273,000 (31 December 2010: HK$180,887,000), as well as trade and other receivable of HK$346,891,000 (31 December 2010: HK$211,502,000). Current liabilities amounted to approximately HK$596,849,000 (31 December 2010: HK$489,089,000). Net current assets aggregated to approximately HK$112,661,000 (31 December 2010: HK$103,276,000). The Group's current ratio remained at 1.2 as at 31 December 2011, which is the same as that as of 31 December 2010. The gearing ratio (defined as bank loans divided by the interests attributable to equity shareholders of the Company) increased from 13.1% as at 31 December 2010 to 35.9% as at 31 December 2011. Such increase was due to the increase in bank loans to fund the Group's business expansion and upgrade the production capacity.

Bank Loans and Pledge of Assets

As at 31 December 2011, the balance of the Group's bank loan was approximately HK$340,570,000 (31 December 2010: HK$109,294,000), of which approximately HK$161,711,000 (31 December 2010: HK$109,294,000) was secured by the Group's assets with net book value of HK$80,627,000 (31 December 2010: HK$115,962,000). The additional bank loans were mainly used as expenditure on the Group's subsidiary Zhong Hong and construction cost for investment in Gaoming Base.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2011 (31 December 2010: Nil).

Employee and Remuneration Policies

As at 31 December 2011, the Group employed a total of 3,510 (31 December 2010: 2,760) 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 1,710, 1,364 and 436 respectively. Remuneration packages principally comprised of salary and discretionary performance bonus based on individual merits. The Group's total remuneration for employees for the year was HK$148,212,000 (31 December 2010: HK$116,680,000).

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 2011.

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 2011 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 114.

No interim dividend was paid during the year. To celebrate the fifth anniversary of our operation in the pharmaceutical industry, the Board resolved to recommend the payment of a final dividend HK$5.0 cents per share for the year ended 31 December 2011 (2010: Nil) to the shareholders on the register of members on 21 May 2012.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$72,072,000 (2010: HK$60,925,000) 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 12 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 26(a) 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 115 to 116.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2011 are set out in note 16 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. DU Richeng, Mr. WANG Bo and Mr. ZHANG Jianhui 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 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 2012.

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.

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 authorization 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, 2011, the fee for each of the directors was fixed at HK$180,000 per annum by the remuneration committee or the Board.

SALE AND PURCHASE OF SHAREHOLDING INTERESTS BETWEEN CONTROLLING SHAREHOLDERS

On 19 May 2011, Hensil Investments Group Limited ("Hensil Investments"), a controlling shareholder of the Company, entered into the sale and purchase agreement ("S&P Agreement") with Extra Benefit Corp. ("Extra Benefit") and Profit Channel Development Limited ("Profit Channel") in relation to the sale and purchase of 605,290,886 shares which represent 33.94% of the issued share capital of the Company and the entire shareholding interests in the Company owned by Hensil Investments. Extra Benefit and Profit Channel are wholly owned by Mr. XU Tiefeng and Mr. YANG Bin respectively. Pursuant to the S&P Agreement, Hensil Investments agreed to sell 605,290,886 shares and each of Extra Benefit and Profit Channel agreed to acquire 302,645,443 shares for the total consideration of HK$680,952,246.75, representing HK$1.125 per ordinary share. Completion of this transaction took place on 14 October 2011. Details of this transaction are referred to the joint announcements dated 27 May 2011, the completion announcement of the Company dated 14 October 2011 and the clarification announcement dated 18 October 2011.

Pursuant to Rule 26.1(d) of the Hong Kong Code on Takeovers and Mergers, an unconditional mandatory cash offer (the "Offer") was required to be made to public shareholders by Profit United Investments Limited ("Profit United"), which is a company owned equally by Mr. XU Tiefeng and Mr. YANG Bin. The Offer closed on 8 July 2011 and Profit United received valid acceptances in respect of 71,526 shares. Details of the Offer and acceptance of the Offer are referred to the Company's composite document dated 17 June 2011 and joint announcement dated 8 July 2011, respectively. Details of the shareholding of the Company as at 31 December 2011 are referred below under the section headed "Disclosure of Interests" in this report.

INTERNAL REORGANISATION OF A CONTROLLING SHAREHOLDER

On 12 July 2011, the Board was informed by Sureplan Limited ("Sureplan") that on 11 July 2011, Sureplan transferred 141,025,641 shares to First Linkup Development Limited ("First Linkup") at a nominal consideration of HK$1.00 and at the same time First Linkup transferred 17% and 8% equity interest in Sureplan to Profit Channel and Extra Benefit respectively, representing First Linkup's entire equity holding in Sureplan prior to the said transfer (the "First Linkup Allocation"). As a result of the First Linkup Allocation, (i) Sureplan directly held 423,076,922 shares, representing approximately 23.72% of the total issued share capital of the Company; (ii) First Linkup directly held 141,025,641 shares, representing approximately 7.91% of the total issued share capital of the Company; (iii) Sureplan is now owned as to 67% by Profit Channel and 33% by Extra Benefit; and (iv) First Linkup has ceased to have any interests in Sureplan. Details of the change of the shareholding structure for Sureplan are referred to the Company's announcement dated 12 July 2011.

As at 31 December 2011, First Linkup held 140,000,000 shares, representing approximately 7.85% of the total issued share capital of the Company.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2011, 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 and short positions in shares and underlying shares of the Company:

Name of Directors	Capacity	Number of Ordinary Shares	Total Interests	Approximate Percentage of Total Interests to Issued Share Capital
XU Tiefeng	Interest of controlled corporations	803,293,891 (long position) *(Note 1, 2 & 4)*	804,763,891 (long position)	45.12%
	Beneficial owner	1,470,000 (long position)		
	Interest of controlled corporations	36,363,636 (short position) *(Note 5)*	36,363,636 (short position)	2.03%
YANG Bin	Interest of controlled corporations	803,293,891 (long position) *(Note 1, 3 & 4)*	803,293,891 (long position)	45.04%
	Interest of a controlled corporation	36,363,636 (short position) *(Note 5)*	36,363,636 (short position)	2.03%

Note:

1. Of the 803,293,891, 423,076,922 shares are held by Sureplan, which is 33% owned indirectly by Mr. XU Tiefeng and 67% owned indirectly by Mr. YANG Bin. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in Sureplan's interest in the Company under SFO. Mr. XU Tiefeng and Mr. YANG Bin both are directors of Sureplan.

2. Of the 803,293,891 shares, 380,145,443 shares are held by Extra Benefit, which is wholly owned by Mr. XU Tiefeng.

3. Of the 803,293,891 shares, 380,145,443 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.

4. Of the 803,293,891 shares, 71,526 shares are held by Profit United, which is 50% owned directly by each of Mr. XU Tiefeng and Mr. YANG Bin.

5. A note and warrant purchase agreement dated 14 October 2011 was entered into, amongst others, Total Champ Investments Limited ("Total Champ"), Extra Benefit, Profit Channel, Mr. XU Tiefeng and Mr. YANG Bin, pursuant to which each of Extra Benefit and Profit Channel shall be obliged, at the option of Total Champ sell to Total Champ 36,363,636 shares at HK$1.2375 per share, or pay Total Champ a cash settlement amount at the expiration of the warrant.

Save as disclosed above, none of the directors and chief executives of the Company had, as at 31 December 2011, 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

As at 31 December 2011, 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 the SFO were as follows:

Long positions and short positions in shares and underlying shares of the Company:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Total Interests	Approximate Percentage of Issued Share Capital
Sureplan	beneficial owner	423,076,922 (long position) *(Note 1)*	423,076,922 (long position)	23.72%
Extra Benefit	interest of a controlled corporation	423,076,922 (long position) *(Note 1)*	803,222,365 (long position)	45.04%
Extra Benefit	beneficial owner	380,145,443 (long position) *(Note 2)*		
Extra Benefit	beneficial owner	36,363,636 (short position) *(Note 4)*		2.03%
Profit Channel	interest of a controlled corporation	423,076,922 (long position) *(Note 1)*	803,222,365 (long position)	45.04%
Profit Channel	beneficial owner	380,145,443 (long position) *(Note 3)*		
Profit Channel	beneficial owner	36,363,636 (short position) *(Note 4)*		2.03%
First Linkup	beneficial owner	140,000,000 (long position) *(Note 5)*	140,000,000 (long position)	7.85%
WU Chiu Kong	interest of a controlled corporation	140,000,000 (long position) *(Note5)*	140,000,000 (long position)	7.85%

Note:

1. The 423,076,922 shares are held by Sureplan, which is owned directly as to 67% by Profit Channel and 33% by Extra Benefit. Profit Channel and Extra Benefit are deemed to be interested in Sureplan's interest in the Company under SFO.

2. The 380,145,443 shares are held by Extra Benefit, which is wholly owned by Mr. XU Tiefeng.

3. The 380,145,443 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.

4. A note and warrant purchase agreement dated 14 October 2011 was entered into, amongst others, Total Champ Investments Limited ("Total Champ"), Extra Benefit, Profit Channel, Mr. XU Tiefeng and Mr. YANG Bin, pursuant to which each of Extra Benefit and Profit Channel shall be obliged, at the option of Total Champ sell to Total Champ 36,363,636 shares at HK$1.2375 per share, or pay Total Champ a cash settlement amount at the expiration of the warrant.

5. The 140,000,000 shares are held by First Linkup, which is wholly owned by Mr. WU Chiu Kong.

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 2011.

DISCLOSEABLE TRANSACTIONS

Acquisition of the entire equity interest in佛山市南海益康醫藥有限公司(Foshan Nanhai Yikang Pharmaceutical Co., Ltd.) ("Nanhai Yikang")

On 28 September 2011, Guangdong Medi-World and 佛山雅信醫藥有限公司(Foshan Yaxin Pharmaceutical Co., Ltd.) entered into the acquisition agreement pursuant to which Guangdong Medi-World conditionally agreed to purchase the entire equity interest of Nanhai Yikang at the consideration of RMB6.8 million. Nanhai Yikang is principally engaged in wholesale of Chinese herbal medicine tablets, Chinese patent medicine, chemical medicine, antibiotic medicine, biochemical medicine, biological products (other than vaccine), protein anabolic agents, peptide hormones; wholesale of medical devices; wholesales of health food; wholesale and retail of pre-packaged foodstuffs; sale of disinfection supplies, cosmetics, daily necessities and health appliances.

The Board considers that the acquisition would allow the Company to make use of Nanhai Yikang as an integrated sales platform for the Company's major products manufactured by its various subsidiaries. As one of the Group's strategies is to establish the integrated sales platform in order to lower the selling and administrative costs through economies of scale, the Board believes that the acquisition would create synergistic benefits to the Group and may enable the Company to further improve its financial performance.

The company name of Nanhai Yikang was changed to 佛山盈天醫藥銷售有限公司 (Foshan Winteam Pharmaceutical Sales Company Limited) on 24 November 2011. The acquisition was completed on 24 November 2011. Details of this acquisition are referred to the Company's announcement dated 28 September 2011.

Investment in 51% of the registered capital of and the provision of loan to 貴州中泰生物科技有限公司(Guizhou Zhongtai Biological Technology Company Limited) ("Guizhou Zhongtai")

On 22 December 2011, Guangdong Medi-World and 河南欣泰藥業有限公司(Henan Xintai Medicine Company Limited) ("Henan Xintai") entered into the investment agreement pursuant to which Guizhou Zhongtai increased its registered capital and Guangdong Medi-World invested in the increased capital of Guizhou Zhongtai for a cash consideration of RMB153 million. The increased capital represents 51% of the entire registered capital of Guizhou Zhongtai upon completion. Guizhou Zhongtai and its subsidiaries are principally engaged in research and development, production and sales of plasma-based biopharmaceutical products in the PRC.

Pursuant to the investment agreement, the consideration payable for the investment is payable by Guangdong Medi-World to Guizhou Zhongtai in cash by six installments. Guizhou Zhongtai shall repay the loan within 20 business days after the payment of the first instalment of the consideration for the investment of RMB93.0 million by Guangdong Med-World and completion of the relevant capital verification procedures. In the event that Guizhou Zhongtai fails to obtain (i) the approval of the registration of靜注人免疫球蛋白(PH4) (Human Immunoglobulin for Intravenous Injection (PH4)) by 31 March 2012; (ii) the approval of the registration of 乙型肝炎人免疫球蛋白 (Human Hepatitis B Immunoglobulin), 破傷風人免疫球蛋白(Tetanus Immunoglobulin) and 人免疫球蛋白(Human Immunoglobulin) by 31 December 2012; or (iii) the title documents for its land and properties by 30 April 2012, Guangdong Medi-World shall not be obligated to pay the respectively instalment of the consideration.

In conjunction with the investment, Guizhou Zhongtai and Guangdong Medi-World also entered into the loan agreement on 22 December 2011 pursuant to which Guangdong Medi-World agreed to advance the loan in the amount of RMB70.0 million to Guizhou Zhongtai. The loan is interest free and secured by a charge over the existing shareholding in Guizhou Zhongtai held by Henan Xintai, representing a 100% equity interest in Guizhou Zhongtai as at the date of loan agreement. The loan shall be utilized by Guizhou Zhongtai to repay the shareholder's loan owed by Guizhou Zhongtai to Henan Xintai which amounted to RMB153.0 million as at the date of the loan agreement. The loan shall be repaid within 20 business days after the payment of the first instalment of the consideration for the investment of RMB93.0 million by Guangdong Med-World and completion of the relevant capital verification procedures by Guizhou Zhongtai.

The directors considered the investment enables the Group to broaden its product range and revenue base, the terms of the investment agreement and the loan agreement are fair and reasonable, and the provision of the loan and the investment are in the interest of the Company and its shareholders as a whole.

Details of the investment and the provision of loan are referred to the Company's announcement and clarification announcement dated 23 December 2011 and 3 January 2012 respectively.

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. The Scheme will be expired on 21 May 2012.

(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

None of the directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The company or its subsidiaries did not enter into any connected transaction during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for around 19% of the Group's total turnover during the year.

The purchases from the Group's five largest suppliers accounted for around 27% 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 24 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 final results and audited financial statements for the year ended 31 December 2011 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 32 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 32 to 38 of this annual report.

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, 23 March 2012

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 time being in force for the year ended 31 December 2011.

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 schedules four meetings a year at approximately quarterly intervals. 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 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*	4/5	80%
Executive Directors:			
XU Tiefeng		5/5	100%
YANG Bin		3/5	60%
SITU Min		5/5	100%
LI Songquan		5/5	100%
Independent Non-executive Directors:			
LO Wing Yat		4/5	80%
PANG Fu Keung		5/5	100%
WANG Bo		4/5	80%
ZHANG Jianhui		4/5	80%

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 did not set up a nomination committee in the past, 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.

Nomination Committee

On 23 March 2012, the Board has approved the establishment of the nomination committee of the Company ("Nomination Committee") with effect from 1 April 2012. The committee will comprise the Chairman of the Board, one executive director and four independent non-executive directors and meets at least once a year. The Chairman of the Nomination Committee will be the Chairman of the Board. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become members of the Board, and assess the independence of independent non-executive directors.

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 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	1/2	50%
ZHANG Jianhui	2/2	100%

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2010 and the interim results and the interim report of the Group for the year 2011, 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.

The Board has approved the adoption of revised terms of reference of the Audit Committee with effect from 1 April 2012.

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 Board. 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.

The Board has approved the adoption of revised terms of reference of the remuneration committee with effect from 1 April 2012.

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, all of the 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' AND AUDITORS' RESPONSIBILITY STATEMENTS

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 2011, 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 auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 42 to 43 of this annual report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit and non-audit service are set out below:

Services rendered	Fee paid/payable in 2011 HK$
Audit service	2,772,000
Non-audit service	
Presenting a report on indebtedness statement for the issue of composite document in relation to the proposed disposal of share by an intermediate controlling shareholder of the Company	242,000
Total	3,014,000

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, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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 62, 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 Board. 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 ("FDC") 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 佛山市公用事業控股有限公司 (Foshan Public Utilities Holding Co., Ltd.) ("Foshan Public Utilities") in July 2006 and had held such office until December 2008. Mr. DU also served as a 調研員(senior consultant) of Foshan Public Utilities until December 2011.

EXECUTIVE DIRECTORS

XU Tiefeng, aged 57, 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 of Hong Kong Limited ("The Stock Exchange") (stock code: 921) and whose A shares are listed on The Stock Exchange of Shenzhen, the PRC.

YANG Bin, aged 44, 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 廣東環球製藥有限公司 (Guangdong Medi-world Pharmaceutical Co., Ltd.), 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 42, 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, acquisition and reorganizations, 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 36, 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 53, 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 an executive director of Sinopoly Battery Limited (formerly known as Thunder Sky Battery Limited) (Stock Code: 729). He formerly served as a non-executive director of Longlife Group Holdings Limited (Stock Code: 8037) till April 2010 and a non-executive director of China Fortune Holdings Limited (Stock Code: 110) till September 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 40, 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 fellow member of the CPA Australia and Hong Kong Institute of Certified Public Accountants. Mr. PANG is also a member of The Hong Kong Institute of Directors.

WANG Bo, aged 52, 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 北京秦脈醫藥科技發展有限公司 (Beijing Qinmai Pharmaceutical Technology Development Co., Ltd.) and Chairman of 北京秦脈醫藥諮詢有限責任公司 (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 66, 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") and its subsidiaries (together "the Group") set out on pages 44 to 114, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 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

23 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Turnover	*3(a)*	**1,015,935**	939,178
Cost of sales		**(467,529)**	(415,274)
Gross profit		**548,406**	523,904
Other revenue	*4*	**12,306**	13,348
Other net income	*4*	**625**	9,034
Selling and distribution costs		**(328,642)**	(317,161)
Administrative expenses		**(130,551)**	(110,064)
Profit from operations		**102,144**	119,061
Finance costs	*5(a)*	**(7,689)**	(3,831)
Profit before taxation	*5*	**94,455**	115,230
Income tax	*6*	**(20,747)**	(29,151)
Profit for the year		**73,708**	86,079
Attributable to:			
Equity shareholders of the Company		**72,072**	60,925
Non-controlling interests		**1,636**	25,154
Profit for the year		**73,708**	86,079
Earnings per share			
Basic and diluted	*11*	**4.04 cents**	3.53 cents

The notes on pages 52 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Profit for the year		**73,708**	86,079
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries in the PRC		**43,252**	35,444
Available-for-sale securities: net movement in fair value reserve	*10*	**(1,829)**	1,974
		41,423	37,418
Total comprehensive income for the year		**115,131**	123,497
Attributable to:			
Equity shareholders of the Company		**112,627**	93,888
Non-controlling interests		**2,504**	29,609
Total comprehensive income for the year		**115,131**	123,497

The notes on pages 52 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Fixed assets			
– Investment properties	12	**3,426**	3,471
– Other property, plant and equipment	12	**253,093**	237,500
– Interests in leasehold land held for own use under operating leases	12	**199,516**	192,544
Construction in progress	13	**87,861**	41,745
Other receivables	19	**37,707**	8,347
		581,603	483,607
Intangible assets	14	**101,646**	115,174
Goodwill	15	**208,644**	192,578
Other financial assets	17	**8,601**	9,840
Deferred tax assets	25(b)	**12,744**	12,612
		913,238	813,811
Current assets			
Other financial assets	17	**81,411**	31,003
Inventories	18(a)	**233,935**	168,973
Trade and other receivables	19	**346,891**	211,502
Deposits with banks	20	**4,919**	60,875
Cash and cash equivalents	20	**42,354**	120,012
		709,510	592,365
Current liabilities			
Trade and other payables	21	**240,798**	361,291
Bank loans	22	**340,570**	109,294
Current taxation	25(a)	**12,251**	13,466
Current portion of deferred government grants	23	**3,230**	5,038
		596,849	489,089
Net current assets		**112,661**	103,276
Total assets less current liabilities		**1,025,899**	917,087

The notes on pages 52 to 114 form part of these financial statements.

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current liabilities			
Deferred tax liabilities	*25(b)*	**52,097**	58,312
Deferred government grants	*23*	**9,487**	9,591
		61,584	67,903
NET ASSETS		**964,315**	849,184
CAPITAL AND RESERVES			
Share capital	*26(c)*	**178,341**	178,341
Reserves		**770,397**	657,318
Total equity attributable to equity shareholders of the Company		**948,738**	835,659
Non-controlling interests		**15,577**	13,525
TOTAL EQUITY		**964,315**	849,184

Approved and authorised for issue by the board of directors on 23 March 2012.

YANG Bin	**SITU Min**
Director	*Director*

The notes on pages 52 to 114 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Investments in subsidiaries	*16*	**710,256**	710,256
Current assets			
Other receivables	*19*	**105,730**	452
Cash and cash equivalents	*20*	**920**	502
		106,650	954
Current liabilities			
Trade and other payables	*21*	**17,393**	1,920
		17,393	1,920
Net current assets/(liabilities)		**89,257**	(966)
NET ASSETS		**799,513**	709,290
CAPITAL AND RESERVES			
Share capital	*26(c)*	**178,341**	178,341
Reserves		**621,172**	530,949
TOTAL EQUITY		**799,513**	709,290

Approved and authorized for issue by the board of directors on 23 March 2012.

YANG Bin
Director

SITU Min
Director

The notes on pages 52 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	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	Other reserve note 26(j) $'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	(139,273)	91,309	835,659	13,525	849,184

The notes on pages 52 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital $'000	Share premium $'000	Capital rede-mption reserve $'000	Exchange reserve $'000	Reserve fund $'000	Fair value reserve $'000	Other reserve note 26(j) $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2011	178,341	529,514	297	118,142	50,761	6,568	(139,273)	91,309	835,659	13,525	849,184
Profit for the year	–	–	–	–	–	–	–	72,072	72,072	1,636	73,708
Other comprehensive income	–	–	–	42,384	–	(1,829)	–	–	40,555	868	41,423
Total comprehensive income for the year	–	–	–	42,384	–	(1,829)	–	72,072	112,627	2,504	115,131
Acquisition of non-controlling interest without a change in control	–	–	–	547	201	14	(310)	–	452	(452)	–
Transfer to reserve fund	–	–	–	–	9,486	–	–	(9,486)	–	–	–
At 31 December 2011	178,341	529,514	297	161,073	60,448	4,753	(139,583)	153,895	948,738	15,577	964,315

The notes on pages 52 to 114 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	**2011** **$'000**	2010 $'000
Operating activities			
Cash (used)/generated from operations		**(24,880)**	104,807
PRC enterprise income tax paid		**(29,809)**	(32,181)
Net cash (used in)/generated from operating activities		**(54,689)**	72,626
Investing activities			
Payment for the purchase of fixed assets		**(26,756)**	(28,932)
Payment for the purchase of intangible assets		**(628)**	(646)
Proceeds from disposal of fixed assets		**–**	57,333
Increase/(decrease) in deposits with banks		**55,956**	(38,842)
Payment for construction in progress		**(77,446)**	(45,678)
Payment for purchase of available-for-sale securities		**(206,466)**	(30,555)
Proceeds from disposal of available-for-sale securities		**238,332**	–
Payment for lease prepayments		**–**	(105,273)
Cash consideration paid for the acquisition of a subsidiaries, net of cash acquired		**(6,573)**	–
Cash consideration paid for acquisition of non-controlling interests		**(141,022)**	(134,132)
Loan to a third party		**(81,411)**	–
Interest received		**1,452**	1,879
Dividends received from unlisted equity securities		**–**	365
Net cash used in investing activities		**(244,562)**	(324,481)
Financing activities			
Proceeds from the issue of new shares		**–**	131,750
Proceeds from new bank loans		**520,122**	130,914
Repayment of bank loans		**(288,846)**	(105,662)
Interest paid		**(13,530)**	(3,831)
Net cash generated from financing activities		**217,746**	153,171
Net decrease in cash and cash equivalents		**(81,505)**	(98,684)
Cash and cash equivalents at 1 January		**120,012**	211,462
Effect of foreign exchange rate changes		**3,847**	7,234
Cash and cash equivalents at 31 December		**42,354**	120,012

The notes on pages 52 to 114 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 1(c) 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 2011 comprise 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(f).

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 2.

1 SIGNIFICANT ACCOUNTING POLICIES

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation 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:

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- IFRIC 19, Extinguishing financial liabilities with equity instruments
- Amendments to IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement

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

The amendments to IFRIC 14 and IFRIC 19 have not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a defined benefit plan or debt for equity swap).

HKAS 24 (revised 2009) simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related, or transactions with other entities related to the same government. These amendments have had no material impact on the Group's financial statements.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in note 27 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

1 SIGNIFICANT ACCOUNTING POLICIES

(d) 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 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 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(p) or (q) 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.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

In the Company's statement of financial position, investment in subsidiaries are stated at cost less impairment losses (see note 1(m)).

1 SIGNIFICANT ACCOUNTING POLICIES

(e) 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(m)).

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.

(f) 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(m)).

Other investments in equity securities and other financial instruments are remeasured at fair value at the end of each 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(v)(iii). When these investments are derecognised or impaired (see note 1(m)), 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

(g) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

(h) Investment property

Investment properties are property held either to earn rental income or for capital appreciation. Investment properties are measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Rental income from investment properties is accounted for as described in note 1(v)(ii).

(i) Other property, plant and equipment

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

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

(j) 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(m)). 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.

(k) 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(x)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)). 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(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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
–	customer relationship	3 years
–	Software	3-5 years

Both the period and method of amortisation are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES

(k) Intangible assets (other than goodwill)

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.

(l) 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(h)).

(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(h)).

1 SIGNIFICANT ACCOUNTING POLICIES

(m) 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 the end of each reporting period 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 effective of discounting is material. This assessment is made collectively where financial assets 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

(m) 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

(m) 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

(m) 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(m)(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.

(n) 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.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(m)), 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(m)).

1 SIGNIFICANT ACCOUNTING POLICIES

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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 end of the reporting period, and any adjustment to tax payable in respect of previous years.

1 SIGNIFICANT ACCOUNTING POLICIES

(t) 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 at 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

(t) 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.

(u) 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.

(v) 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 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.

1 SIGNIFICANT ACCOUNTING POLICIES

(v) Revenue recognition

(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 amount 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.

(w) 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.

1 SIGNIFICANT ACCOUNTING POLICIES

(w) Translation of foreign currencies

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 at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) 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.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES

(y) Related parties

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(z) 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 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.

Note 12(b), 15 and 27 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, and financial instruments. Other key sources of estimation uncertainty are as follows:

(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.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

(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.

3 TURNOVER AND SEGMENT REPORTING

(a) 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:

	2011	2010
	$'000	$'000
Sales of pharmaceutical products		
–Pills and tablets	**484,633**	487,453
–Granules	**130,200**	78,737
–Injections	**88,649**	109,340
–Medicine wine	**82,845**	42,791
–Others	**229,608**	220,857
	1,015,935	939,178

Further details regarding the Group's principal activities are described below:

3 TURNOVER AND SEGMENT REPORTING

(b) 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 six reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales", previously known as Foshan Nanhai Yikang Pharmaceutical Co., Ltd.)

(i) 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 investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payables, and accruals 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 amortisation", where "interest" is regarded as including investment income. 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.

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

(i) Segment results, assets and liabilities

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

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 2011 and 2010 is set out below.

Year ended 31 December 2011

	Dezhong $'000	Feng Liao Xing $'000	Guangdong Medi-World $'000	Luya $'000	Nanhai Pharmaceu-tical $'000	Winteam Sales $'000	Total $'000
Revenue from external customers	346,472	235,693	313,221	85,686	202,779	11,891	1,195,742
Inter-segment revenue	(729)	(1,248)	(111)	–	(177,719)	–	(179,807)
Reportable segment revenue	**345,743**	**234,445**	**313,110**	**85,686**	**25,060**	**11,891**	**1,015,935**
Reportable segment profit (adjusted EBITDA)	**68,533**	**22,101**	**35,919**	**29,240**	**8,870**	**1,322**	**165,985**
Interest income from bank deposit	579	51	739	22	54	7	1,452
Interest expenses	2,045	546	2,908	–	2,190	–	7,689
Depreciation and amortisation for the year	24,009	9,754	15,171	8,091	66	15	57,106
Reportable segment assets	**812,932**	**354,174**	**476,924**	**174,627**	**252,546**	**42,301**	**2,113,504**
Additions to non-current assets during the year	85,212	8,867	13,880	2,095	527	8,188	118,769
Reportable segment liabilities	**312,554**	**117,379**	**482,646**	**11,864**	**228,793**	**32,459**	**1,185,695**

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

(i) Segment results, assets and liabilities

Year ended 31 December 2010

	Dezhong $'000	Feng Liao Xing $'000	Guangdong Medi-World $'000	Luya $'000	Nanhai Pharmaceu-tical $'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)
Reportable segment revenue	340,015	183,477	260,264	106,764	48,658	939,178
Reportable segment profit (adjusted EBITDA)	66,154	33,629	31,524	33,042	8,014	172,363
Interest income from bank deposit	1,537	218	53	18	53	1,879
Interest expenses	265	82	3,464	3	17	3,831
Depreciation and amortisation for the year	23,715	17,939	8,362	4,109	89	54,214
Reportable segment assets	538,778	264,918	477,831	171,651	82,926	1,536,104
Additions to non-current assets during the year	48,435	4,022	115,462	14,441	350	182,710
Reportable segment liabilities	150,135	71,569	361,708	22,606	64,655	670,673

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

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

	2011 $'000	2010 $'000
Revenue		
Reportable segment revenue	**1,195,742**	1,043,175
Elimination of inter-segment revenue	**(179,807)**	(103,997)
Consolidated turnover	**1,015,935**	939,178
Profit		
Reportable segment profit	**165,985**	172,363
Elimination of inter-segment profits	**(4,146)**	(5,889)
Reportable segment profit derived from the Group's external customers	**161,839**	166,474
Other revenue and net income	**12,931**	22,382
Depreciation and amortisation	**(57,106)**	(54,214)
Finance costs	**(7,689)**	(3,831)
Unallocated head office and corporate expenses	**(15,520)**	(15,581)
Consolidated profit before taxation	**94,455**	115,230

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

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

	At 31 December 2011 $'000	At 31 December 2010 $'000
Assets		
Reportable segment assets	**2,113,504**	1,536,104
Elimination of inter-segment receivables	**(601,081)**	(189,273)
	1,512,423	1,346,831
Non-current financial assets	**8,601**	9,840
Current financial assets	**81,411**	31,003
Deferred tax assets	**12,744**	12,612
Unallocated head office and corporate assets	**7,569**	5,890
Consolidated total assets	**1,622,748**	1,406,176
Liabilities		
Reportable segment liabilities	**1,185,695**	670,673
Elimination of inter-segment payables	**(601,081)**	(189,273)
	584,614	481,400
Current tax liabilities	**12,251**	13,466
Deferred tax liabilities	**52,097**	58,312
Unallocated head office and corporate liabilities	**9,471**	3,814
Consolidated total liabilities	**658,433**	556,992

(iii) 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.

4 OTHER REVENUE AND NET INCOME

	2011 **$'000**	2010 $'000
Other revenue		
Government grants (note 23)	**9,432**	9,835
Interest income	**1,452**	1,879
Rental income	**1,422**	1,269
Dividend income from unlisted equity securities	**–**	365
	12,306	13,348

	2011 **$'000**	2010 $'000
Other net income		
Net (loss)/gain on disposal of fixed assets	**(124)**	8,797
Available-for-sale securities:		
– gain on disposal reclassified from equity (note 10)	**854**	–
Exchange loss	**(6)**	(19)
Others	**(99)**	256
	625	9,034

5 PROFIT BEFORE TAXATION

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

	2011 $'000	2010 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**13,530**	3,831
Less: interest expense capitalised into construction in progress*	**(5,841)**	–
	7,689	3,831

* The borrowing cost have been capitalised at a rate of 5.355%-7.095% per annum (2010: Nil).

	2011 $'000	2010 $'000
(b) Staff costs:		
Salaries, wages and other benefits	**132,978**	103,392
Contributions to defined contribution retirement plans	**15,234**	13,288
	148,212	116,680
(c) Other items		
Auditors' remuneration	**3,014**	2,107
Depreciation		
–investment properties	**180**	289
–assets held for use under operating leases	**2,499**	2,294
–other property, plant and equipment	**34,059**	26,895
Amortisation		
–intangible assets	**20,368**	24,736
Impairment losses		
–trade and other receivables	**(345)**	2,464
Operating lease charges: minimum lease payments	**4,643**	2,803
Research and development costs	**41,506**	37,508
Rentals receivable from investment properties	**(1,422)**	(1,269)
Cost of inventories# (note 18)	**468,934**	416,721

\# Cost of inventories includes $102,662,000 (2010:$96,146,000) relating to staff cost, depreciation and amortisation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2011 **$'000**	2010 $'000
Current tax		
PRC enterprise income tax for the year	**27,935**	35,746
Under-provision in respect of prior years	**623**	1,408
	28,558	37,154
Deferred tax		
Reversal of temporary differences	**(7,811)**	(8,003)
	20,747	29,151

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 (2010: Nil).

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% in 2011 (2010: 15%) 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:

	2011 **$'000**	2010 $'000
Profit before taxation	**94,455**	115,230
Notional tax on profit before taxation, calculated at rates applicable to profit in the jurisdictions concerned	**25,105**	29,858
Tax effect on non-deductible expenses	**3,397**	3,235
Tax effect on non-taxable revenue	**–**	(435)
Income tax concessions	**(10,012)**	(10,172)
Withholding tax on undistributed profits of PRC subsidiaries	**1,634**	5,257
Under-provision in respect of prior year	**623**	1,408
Actual tax expense	**20,747**	29,151

7 DIRECTORS' REMUNERATION

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

	2011				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Yang Bin	180	1,275	501	52	2,008
Situ Min	180	650	300	40	1,170
Li Songquan	180	650	300	30	1,160
Xu Tiefeng	180	970	360	37	1,547
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	3,545	1,461	159	6,785

7 DIRECTORS' REMUNERATION

	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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2010: four) are directors whose remuneration is disclosed in the above. The aggregate of the emoluments in respect of the other one (2010: one) individual was as follows:

	2011 **$'000**	2010 $'000
Salaries and other emoluments	**348**	515
Retirement scheme contributions	**20**	19
	368	534

The emoluments of the one (2010: one) individual with highest emoluments are within the following band:

	2011 **Number of** **individuals**	2010 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 $ 15,477,000 (2010: loss of $15,205,000) 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:

	2011 **$'000**	2010 $'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(15,477)**	(15,205)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**105,700**	–
Company's profit/(loss) for the year (note 26(a))	**90,223**	(15,205)

10 OTHER COMPREHENSIVE INCOME

	2011 $'000	2010 $'000
Available-for-sale securities	**(1,298)**	2,321
Gain on disposal transferred to profit or losses (note 4)	**(854)**	–
Income tax effect on the change in fair value recognised during the year	**323**	(347)
	(1,829)	1,974

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 $72,072,000 (2010: $60,925,000) and the weighted average of 1,783,411,000 ordinary shares (2010: 1,727,868,000 ordinary shares) in issue during the year, calculated as follows:

	2011 '000	2010 '000
Issued ordinary shares at 1 January	**1,783,411**	1,628,411
Effect of new shares issued	**–**	155,000
Weighted average number of ordinary shares at 31 December	**1,783,411**	1,727,868

(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 FIXED ASSETS

	The Group							
	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	Total $'000
Cost:								
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 (note 13)	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
At 1 January 2011	135,338	187,384	8,923	55,830	387,475	7,209	201,472	596,156
Additions	3,135	18,621	2,525	8,390	32,671	–	–	32,671
Acquisition of a subsidiary (note 31)	–	–	519	52	571	–	–	571
Transfer from construction in progress (note 13)	2,390	2,491	–	–	4,881	–	–	4,881
Disposals	–	(218)	–	(876)	(1,094)	–	–	(1,094)
Exchange adjustments	6,840	9,737	455	2,884	19,916	358	10,224	30,498
At 31 December 2011	147,703	218,015	12,422	66,280	444,420	7,567	211,696	663,683
Accumulated depreciation and amortisation:								
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
At 1 January 2011	14,792	103,743	3,824	27,616	149,975	3,738	8,928	162,641
Charge for the year	7,305	19,836	1,384	5,534	34,059	180	2,499	36,738
Written back on disposals	–	(189)	–	(781)	(970)	–	–	(970)
Exchange adjustments	885	5,528	355	1,495	8,263	223	753	9,239
At 31 December 2011	22,982	128,918	5,563	33,864	191,327	4,141	12,180	207,648
Net book value:								
At 31 December 2011	124,721	89,097	6,859	32,416	253,093	3,426	199,516	456,035
At 31 December 2010	120,546	83,641	5,099	28,214	237,500	3,471	192,544	433,515

12 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 2011, the remaining period of the land use rights ranged from 26 years to 49 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:

	2011 $'000	2010 $'000
Within 1 year	**553**	658
After 1 year but within 5 years	**–**	–
	553	658

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 2011 is $15,770,000 (2010: $14,700,000) by reference to net rental income allowing for reversionary income potential. The valuations of the investment properties as at 31 December 2011 and 31 December 2010 were carried out respectively by Roma Appraisals Limited and Memfus Wong Surveyor 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 $ 69,278,000 were pledged as securities of bank loans of the Group as at 31 December 2011 (see note 22) (2010: $55,087,000).

(d) The Group was in the process of applying for the title certificate of certain of its interests in leasehold land with an aggregate carrying amount of $ 95,053,000 as at 31 December 2011 (2010: $90,561,000).

13 CONSTRUCTION IN PROGRESS

	The Group	
	2011 $'000	2010 $'000
At 1 January	**41,745**	14,396
Additions	**48,012**	45,678
Transfer to fixed assets (note 12)	**(4,881)**	(19,565)
Exchange adjustments	**2,985**	1,236
At 31 December	**87,861**	41,745

Construction in progress mainly represents premises and equipments under construction as at 31 December 2011.

14 INTANGIBLE ASSETS

	The Group					
	Product protection rights $'000	Trademarks $'000	Distribution network $'000	Software $'000	Customer relationship $'000	Total $'000
Cost:						
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
At 1 January 2011	76,858	57,232	69,338	308	–	203,736
Additions	–	–	–	628	–	628
Acquisition of a subsidiary (note 31)	–	–	–	–	913	913
Exchange adjustments	3,813	2,840	3,439	28	5	10,125
At 31 December 2011	80,671	60,072	72,777	964	918	215,402
Accumulated amortisation and impairment loss:						
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
At 1 January 2011	67,200	8,058	13,291	13	–	88,562
Amortisation for the year	9,925	2,966	7,127	350	–	20,368
Exchange adjustments	3,546	463	808	9	–	4,826
At 31 December 2011	80,671	11,487	21,226	372	–	113,756
Net book value:						
At 31 December 2011	–	48,585	51,551	592	918	101,646
At 31 December 2010	9,658	49,174	56,047	295	–	115,174

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

15 GOODWILL

	The Group	
	2011	2010
	$'000	$'000
Cost and carrying amount:		
At 1 January	**192,578**	186,197
Addition acquired through business combination (note 31)	**6,614**	–
Exchange adjustments	**9,452**	6,381
At 31 December	**208,644**	192,578

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

	The Group	
	2011	2010
	$'000	$'000
Manufacture and sale of pharmaceutical products – Dezhong	**123,832**	117,980
Manufacture and sale of pharmaceutical products – Feng Liao Xing	**29,188**	27,808
Manufacture and sale of pharmaceutical products – Guangdong Medi-World	**32,017**	30,634
Manufacture and sale of pharmaceutical products – Luya	**13,937**	13,278
Sale of pharmaceutical products – Nanhai Pharmaceutical	**3,021**	2,878
Sale of pharmaceutical products – Winteam Sales	**6,649**	–
	208,644	192,578

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 4.5% (2010: 3%) and no growth in sales volume. The rates used to discount the forecast cash flows range from 12% to 14.72% (2010: 9.7%).

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	2010
	$'000	$'000
Unlisted shares, at cost	**529,542**	529,542
Amounts due from subsidiaries	**180,714**	180,714
	710,256	710,256

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 2011.

All of these are controlled subsidiaries as defined under note 1(d) 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 Directly	Percentage of equity interest held Indirectly	Principal activities
Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") (note (i))	The PRC 1 November 1998	US$6,460,000	–	96.94%	Manufacture and sale of Chinese pharmaceutical products
Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing") (note (i))	The PRC 16 March 2000	US$7,526,100	–	98.08%	Manufacture and sale of Chinese pharmaceutical products
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

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held Directly	Indirectly	Principal activities
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 Winteam Pharmaceutical Sales Company Limited ("Winteam Sales") (note (iv))	The PRC 1 August 2002	RMB600,000	–	100%	Trading of pharmaceutical products

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 and Winteam Sales were established pursuant to the Company Law of the PRC.

17 OTHER FINANCIAL ASSETS

	The Group	
	2011	2010
	$'000	$'000
Non-current		
Available-for-sale equity securities		
– Listed in the PRC, at fair value	**7,355**	8,653
– Unlisted equity securities, at cost	**1,246**	1,187
	8,601	9,840
Current		
Other financial instruments, at fair value	**–**	31,003
Loan to a third party	**81,411**	–
	90,012	40,843
Market value of listed securities	**7,355**	8,653

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.

The Group advanced an interest-free loan in the amount of RMB 66,000,000 (approximately $ 81,411,000) to Guizhou Zhongtai Biological Technology Co., Ltd. ("Guizhou Zhongtai"), an independent company. The loan is secured by a charge over the existing shareholding in Guizhou Zhongtai and repayable after the payment of the first instalment of the consideration for the investment in Guizhou Zhongtai (note 32). Neither the available-for-sale equity securities nor the loan to a third party are past due or impaired.

18 INVENTORIES

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

	2011 **$'000**	2010 $'000
Raw materials	**65,078**	48,348
Work in progress	**71,479**	48,972
Finished goods	**84,502**	57,253
	221,059	154,573
Packaging materials	**8,172**	10,390
Low value consumables	**4,704**	4,010
	233,935	168,973

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

	2011 **$'000**	2010 $'000
Carrying amount of inventories sold	**467,529**	415,274
Write down of inventories	**1,405**	1,447
	468,934	416,721

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Current				
Trade receivables	**181,831**	152,273	**–**	–
Bills receivables	**150,417**	46,312		
Less: allowance for doubtful debt (note 19(b))	**(11,378)**	(11,176)	**–**	–
	320,870	187,409	**–**	–
Other receivables	**26,021**	24,093	**105,730**	452
	346,891	211,502	**105,730**	452
Non-current				
Prepayments	**37,707**	8,347	**–**	–
	384,598	219,849	**105,730**	452

Non-current prepayments represent the prepayments for construction works and equipment amounted to $37,707,000 (2010: $8,347,000).

Bills receivables with carrying value of $11,349,000 (2010: Nil) were pledged as securities of bank loan of the Group as at 31 December 2011(see note 22).

(a) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis as of the end of the financial year:

	The Group	
	2011	2010
	$'000	$'000
Within 3 months of invoice date	**148,465**	89,265
3 to 6 months after invoice date	**15,022**	24,775
More than 6 months less than 12 months after invoice date	**6,966**	27,057
More than 12 months after invoice date	**11,378**	11,176
	181,831	152,273

Trade 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 27(a).

19 TRADE AND OTHER RECEIVABLES

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade 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 receivables directly (see note 1(m)(i)).

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

	The Group	
	2011	2010
	$'000	$'000
At 1 January	**11,176**	8,364
Impairment loss (reversed)/recognised	**(345)**	2,464
Exchange adjustments	**547**	348
At 31 December	**11,378**	11,176

At 31 December 2011, the Group's gross trade receivables of $ 11,378,000 (2010: $11,176,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of $ 11,378,000 were recognised (2010: $11,176,000). The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

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

	The Group	
	2011	2010
	$'000	$'000
Within 3 months of invoice date	**148,465**	89,265
3 to 6 months after invoice date	**15,022**	24,775
More than 6 months less than 12 months after invoice date	**6,966**	27,057
	170,453	141,097

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

19 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.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**4,919**	60,875	**–**	–
Cash at bank and in hand	**42,354**	120,012	**920**	502
	47,273	180,887	**920**	502
Less: Bank deposits with maturity beyond three months (note 1)	**(4,919)**	(60,875)	**–**	–
Cash and cash equivalents	**42,354**	120,012	**920**	502

Note 1: No bank deposits were pledged as securities for banking facilities (2010: $ 60,875,000) (see note 22).

20 CASH AND CASH EQUIVALENTS

(b) Reconciliation of profit before taxation to cash (used in)/generated from operations:

		2011 $'000	2010 $'000
Operating activities			
Profit before taxation		**94,455**	115,230
Adjustments for:			
Depreciation and amortisation		**57,106**	54,214
Impairment loss on trade and other receivables	*5(c)*	**(345)**	2,464
Finance costs	*5(a)*	**7,689**	3,831
Interest income	*4*	**(1,452)**	(1,879)
Dividend income from unlisted equity securities	*4*	**–**	(365)
Loss/(gain) on disposal of fixed assets	*4*	**124**	(8,797)
Foreign exchange loss		**1,561**	19
Increase in inventories		**(58,254)**	(53,932)
Increase in trade and other receivables		**(112,826)**	(62,951)
(Decrease)/Increase in trade and other payables		**(12,938)**	56,973
Cash (used in)/generated from operations		**(24,880)**	104,807

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011 **$'000**	2010 $'000	**2011** **$'000**	2010 $'000
Trade creditors	**97,621**	85,824	**–**	–
Other creditors and accrued charges	**134,693**	241,606	**17,393**	1,920
Advances received from customers	**8,484**	33,861	**–**	–
	240,798	361,291	**17,393**	1,920

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

	The Group	
	2011 **$'000**	2010 $'000
Due within 1 month or on demand	**97,621**	85,824

21 TRADE AND OTHER PAYABLES

Other creditors and accrued charges mainly include accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

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

22 BANK LOANS

The Group's bank loans were repayable as follows:

	The Group	
	2011	2010
	$'000	$'000
Within 1 year or on demand	**340,570**	109,294

The Group's bank loans were secured as follows:

	The Group	
	2011	2010
	$'000	$'000
Bank loans		
Secured	**161,711**	109,294
Unsecured	**178,859**	–
	340,570	109,294

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 31 December 2011	At 31 December 2010
	$'000	$'000
Interests in leasehold land and buildings (note 12(c))	**69,278**	55,087
Deposits with banks (note 20)	**–**	60,875
Bills receivables (note 19)	**11,349**	–
	80,627	115,962

Apart from the above secured assets, interest in leasehold land held by Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), a company in which Mr. Yang Bin and Mr. Xu Tiefeng (note 29(b)) jointly hold 72.7% equity interest as at 31 December 2011, was pledged as security for bank loans as at 31 December 2010 and 2011.

22 BANK LOANS

(ii) As at 31 December 2011, no bank loan was guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin. (31 December 2010: $49,358,000).

(iii) Banking facilities of $225,484,000 (31 December 2010: $47,008,000) were utilised to the extent of $185,025,000 (31 December 2010: $23,504,000). The bank loans drawn were secured by assets as set out in note 22(i).

Parts of the Group's banking facilities, amounted to $111,015,000 (2010: $23,504,000) are subject to the fulfilment of covenants relating to certain of the balance sheet ratios of the subsidiaries of the Group, 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 27(b). As at 31 December 2011 none of the covenants relating to drawn down facilities had been breached (2010: Nil)

23 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 $ 3,230,000 (2010: $5,038,000) has been classified as current and the remaining portion of $ 9,487,000 (2010: $9,591,000) has been classified as non-current.

24 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.

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.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2011	2010
	$'000	$'000
Provision for PRC corporate income tax for the year	**28,558**	37,154
PRC corporate income tax paid	**(29,809)**	(32,181)
	(1,251)	4,973
Acquisition of a subsidiary (note 31)	**36**	–
Balance of PRC corporate income tax relating to prior year	**13,466**	8,493
	12,251	13,466

(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 doubtful debts $'000	Available-for-sale securities $'000	Withholding tax on undistributed profits of PRC subsidiaries $'000	Others $'000	Total $'000
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)
At 1 January 2011	(27,662)	(16,791)	6,014	(1,346)	(12,949)	7,034	(45,700)
Addition through acquisition	(228)	–	–	–	–	–	(228)
Credited/(charged) to profit or loss	4,983	1,073	(138)	–	2,682	(789)	7,811
Charged to reserves	–	–	–	323	–	–	323
Exchange adjustments	(1,916)	(186)	296	(60)	(23)	330	(1,559)
At 31 December 2011	(24,823)	(15,904)	6,172	(1,083)	(10,290)	6,575	(39,353)

25 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	
	2011	2010
	$'000	$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**12,744**	12,612
Net deferred tax liabilities recognised on the consolidated statement of financial position	**(52,097)**	(58,312)
	(39,353)	(45,700)

26 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 2010	162,841	413,264	297	16,343	592,745
Loss and other 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
At 1 January 2011	178,341	529,514	297	1,138	709,290
Profit and other comprehensive income for the year	–	–	–	90,223	90,223
At 31 December 2011	178,341	529,514	297	91,361	799,513

26 CAPITAL AND RESERVES

(b) Dividends

Dividend payable to equity shareholders of the Company attributable to the year

	2011 **$'000**	2010 $'000
Final dividend proposed after the end of the reporting period of 5 cent per ordinary share (2010: Nil)	**89,171**	–

(c) Share capital

	2011		2010	
	Number of shares '000	**Nominal value $'000**	Number of shares '000	Nominal value $'000
Authorised:				
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	**1,783,411**	**178,341**	1,628,411	162,841
New shares issued during the year	**–**	**–**	155,000	15,500
At 31 December	**1,783,411**	**178,341**	1,783,411	178,341

The holders of ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

(d) 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.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with operations in the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

26 CAPITAL AND RESERVES

(f) 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.

(g) 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(f).

(h) 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.

(i) Distributability of reserves

At 31 December 2011, the aggregate amount of reserve available for distribution to equity shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was $91,361,000 (2010: 1,138,000). After the end of the reporting period the directors proposed a final dividend of 5 cents per ordinary share (2010: Nil), amounting to $89,171,000 (2010: Nil) (note 26(b)). This dividend has not been recognised as a liability at the end of the reporting period.

(j) Other reserve

Other reserve amounted to $139,273,000 represents premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves.

(k) 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.

26 CAPITAL AND RESERVES

(k) Capital management

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.

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) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2011, the Group's strategy, which was unchanged from 2010, is to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratios at 31 December 2011 and 2010 are as follows:

	2011 $'000	2010 $'000
Current liabilities:		
Trade and other payables	**240,798**	361,291
Bank loans	**340,570**	109,294
	581,368	470,585
Add: Proposed dividends	**89,171**	–
Less: Cash and cash equivalents	**42,354**	120,012
Adjusted net debt	**628,185**	350,573
Total equity	**964,315**	849,184
Less: Proposed dividends	**89,171**	–
Adjusted equity	**875,144**	849,184
Adjusted net debt-to-equity ratio	**72%**	41%

Except for covenants relating to certain of the banking facilities of the subsidiaries of the Group as disclosed in note (22), neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

27 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. Trade 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 2011, the Group has no 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 and other receivables are set out in note 19.

(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 its 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 tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company'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 end of the reporting period and the earliest date the Group and the Company can be required to pay:

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(b) Liquidity risk

The Group

	2011			2010		
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000
Trade and other payables	**240,798**	**(240,798)**	**(240,798)**	361,291	(361,291)	(361,291)
Bank loans	**340,570**	**(355,390)**	**(355,390)**	109,294	(112,333)	(112,333)
	581,368	**(596,188)**	**(596,188)**	470,585	(473,624)	(473,624)

The Company

	2011			2010		
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000
Trade and other payables	**17,393**	**(17,393)**	**(17,393)**	1,920	(1,920)	(1,920)

(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.

27 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 end of the reporting period.

	2011		2010	
	Effective interest rate %	**One year or less $'000**	Effective interest rate %	One year or less $'000
Variable rate borrowings:				
Bank loans	**6.23%**	**340,570**	5.34%	109,294

(ii) Sensitivity analysis

As at 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately $ 2,895,000 (2010: $929,000). 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 end of the reporting period 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, Luya, Nanhai Pharmaceutical, and Winteam Sales 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 17), 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.

27 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 end of the reporting period.

	Increase/ (decrease) in share price	**2011 Effect on equity $'000**	2010 Effect on equity $'000
Change in market price of equity investments:			
– increase	20%	**1,250**	1,471
– decrease	(20%)	**(1,250)**	(1,471)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the end of the reporting period 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 2010.

(f) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period 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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(f) Fair values

	2011				2010			
	level 1 $'000	**level 2 $'000**	**level 3 $'000**	**Total $'000**	level 1 $'000	level 2 $'000	level 3 $'000	Total $'000
Assets								
Available-for-sale equity securities:								
– Listed in the PRC	**7,355**	**–**	**–**	**7,355**	8,653	–	–	8,653
– Unlisted financial instruments, at fair value	**–**	**–**	**–**	**–**	–	31,003	–	31,003
Total	**7,355**	**–**	**–**	**7,355**	8,653	31,003	–	39,656

28 COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	The Group	
	2011 $'000	2010 $'000
Contracted for	**263,071**	25,658

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2011 $'000	2010 $'000
Within 1 year	**4,800**	5,892
After 1 year but within 5 years	**9,083**	12,168
	13,883	18,060

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.

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 8, is as follows:

	2011 **$'000**	2010 $'000
Short-term employee benefits	**6,974**	6,701
Post-employments benefits	**179**	108
	7,153	6,809

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

(b) Other related party transactions

During the year ended 31 December 2011, 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 from 15 November 2010 to 30 December 2010**	**Relationship as at 31December 2011**
Foshan Nanhai New & Specific Pharmaceutical Co., Ltd. ("Nanhai New & Specific Pharmaceutical") (note (i))	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company	Nil
Foshan Nanhai Pharmaceutical Group Pharmaceutical Co., Ltd. ("NPGP") (note (i))	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company	Nil
Foshan Nanhai Yikang Pharmaceutical Co., Ltd. ("Nanhai Yikang")	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng directors of the Company	the Group's subsidiary
Foshan Nanhai Pharmaceutical Group Co., Ltd. ("Nanhai Pharmaceutical Group") (note (i))	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company	Nil

29 MATERIAL RELATED PARTY TRANSACTIONS

(b) Other related party transactions

Name of related party	Relationship as at 31 December 2010	Relationship as at 31December 2011
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
Zhejiang Dongying Pharmaceutical Co., Ltd. ("Zhejiang Dongying")	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng
Sino Famous Trading Limited ("Sino")	Effectively 50% owned by Mr. Xu Tiefeng and 50% owned by Mr. Wu Chiu Kong	Effectively 50% owned by Mr. Xu Tiefeng and 50% owned by Mr. Wu Chiu Kong
Kimlong Technology Limited ("Kimlong")	Effectively 100% owned by Mr. Yang Bin	Effectively 100% owned by Mr. Yang Bin

Note (i): The Nanhai Yikang, Nanhai New & Specific Pharmaceutical and Nanhai Medicine were disposed of by Mr. Yang Bin and Mr. Xu Tiefeng as at 30 December 2010 and ceased to be related parties of the Group since that date.

Particulars of significant transactions between the Group and the related parties are as follows:

	Year ended 31 December	
	2011	2010
	$'000	$'000
Nanhai New & Specific Pharmaceutical	**–**	9,405
NPGP	**–**	4,154
Nanhai Yikang	**–**	7,090
Payment on behalf of:		
Sino	**2,249**	–
Kimlong	**1,838**	–
Zhejiang Dong Ying	**3,986**	–
	8,073	20,649

29 MATERIAL RELATED PARTY TRANSACTIONS

(b) Other related party transactions

As at 31 December 2011, the Group's trade and other receivable balances due from related parties are as below:

	Year ended 31 December	
	2011	2010
	$'000	$'000
Nanhai New & Specific Pharmaceutical	**–**	2,213
NPGP	**–**	1,252
Nanhai Yikang	**–**	1,361
Zhejiang Dongying	**4,071**	–
Sino	**2,297**	–
Kimlong	**1,877**	–
	8,245	4,826

As at 31 December 2011, bank loans of $ 111,015,000 (2010: 15,278,000) were secured by interest in leasehold land held by Hanyu Pharmaceutical.

30 ACQUISITION OF NON-CONTROLLING INTERESTS

(a) Acquisition of non-controlling interest in Dezhong

In August 2011, the Group acquired an additional 0.37% interest in Dezhong through increasing the Group's paid-in capital in Dezhong for a cash consideration of RMB26,305,000 (approximately $31,816,000), among which RMB4,500,000 (approximately $5,454,000) was recognised as paid-in capital and RMB21,805,000 (approximately $26,362,000) was recognised as capital reserve. Through the capital injection, the Group increased its effective equity interest in Dezhong from 96.57% to 96.94%. The carrying amount of Dezhong's net assets in the consolidated financial statements on the date of the acquisition was $296,730,000. The Group recognized a decrease in non-controlling interest of $291,000 and an increase in reserve of $291,000.

30 ACQUISITION OF NON-CONTROLLING INTERESTS

(a) Acquisition of non-controlling interest in Dezhong

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

	Year ended 31 December 2011 $'000
Equity interest in Dezhong at beginning of year	**270,599**
Capital injection	**31,009**
Effect of increase in Dezhong's equity interest	**1,098**
Share of comprehensive income during the year ended 31 December 2011	**53,204**
Equity interest in Dezhong at the end of the year	**355,910**

(b) Acquisition of non-controlling interest in Feng Liao Xing

In September 2011, the Group acquired an additional 0.25% interest in Feng Liao Xing through increasing the Group's paid-in capital in Feng Liao Xing for a cash consideration of RMB16,781,000 (approximately $20,448,000), among which RMB3,834,000 (approximately $4,672,000) was recognized as paid-in capital and RMB12,947,000 (approximately $15,776,000) was recognized as capital reserve. Through the capital injection, the Group increased its effective equity interest in Feng Liao Xing from 97.83% to 98.08%. The carrying amount of Feng Liao Xing's net assets in the consolidated financial statement on the date of the acquisition was $185,788,000. The Group recognized a decrease in non-controlling interest of $161,000 and an increase in reserve of $161,000.

	Year ended 31 December 2011 $'000
Equity interest in Feng Liao Xing at the beginning of year	**171,505**
Capital injection	**20,145**
Effect of increase in Feng Liao Xing's equity interest	**464**
Share of comprehensive income during the year ended 31 December 2011	**19,172**
Equity interest in Feng Liao Xing at the end of the year	**211,286**

31 ACQUISITION OF A SUBSIDIARY

Business combination

In November 2011 the Group acquired the entire equity interest of Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales", previously known as Foshan Nanhai Yikang Pharmaceutical Co., Ltd), a company principally engaged in wholesale of Chinese herbal medicine tablets, Chinese patent medicine and chemical medicine, for a consideration of RMB6,800,000 in cash (approximately $ 8,344,000).

Winteam Sales has contributed revenue of $11,891,000 and net profit of $984,000 for the year ended 31 December 2011. Had Winteam Sales been consolidated from 1 January 2011, Winteam Sales would contribute revenue of $113,219,000 and net profit of $9,067,000 assuming that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2011.

The acquisition had the following effect on the Group's assets and liabilities:

	Note	**Pre-acquisition carrying amounts $'000**	**Fair value adjustments $'000**	**Recognised values on acquisition $'000**
Property, plant and equipment	*12*	571	–	571
Intangible assets	*14*	–	913	913
Inventories		6,708	–	6,708
Trade receivables		20,560	–	20,560
Deposits, prepayments and other receivables		3,026	–	3,026
Cash and cash equivalents		1,771	–	1,771
Deferred tax liabilities	*25(b)*	–	(228)	(228)
Trade payables		(20,450)	–	(20,450)
Accrued expenses and other payables		(11,105)	–	(11,105)
Income tax payable	*25(a)*	(36)	–	(36)
Net identifiable assets and liabilities		1,045	685	1,730
Goodwill on acquisition	*15*			6,614
Consideration in cash:				8,344
Consideration paid in cash				8,344
Cash acquired				(1,771)
Net cash outflow				6,573

31 ACQUISITION OF A SUBSIDIARY

Business combination

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values. In determining the fair value of customer relationship acquired, the Group applied a discount rate of 14.72% which is based on a weighted average cost of capital of 13.72% and an additional risk premium of 1% as at the valuation date using the Excess Earnings Method.

The goodwill recognised on the acquisition is attributable mainly to the synergies expected to be achieved from integrating Winteam Sales into the Group's existing pharmaceutical sales business.

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Pursuant to a conditional investment agreement dated 22 December 2011 entered into among a wholly-owned subsidiary of the Group, Guangdong Medi-World and Henan Xintai Medicine Company Limited ("Henan Xintai") and Guizhou Zhongtai Biological Technology Company Limited ("Guizhou Zhongtai", a wholly-owned subsidiary of Henan Xintai) ("the Investment Agreement"), Henan Xintai has agreed that Guizhou Zhongtai will increase its registered capital ("Increased Capital") and Guangdong Medi-World has agreed to invest in the Increased Capital of Guizhou Zhongtai for a cash consideration of RMB153 million (approximately $184 million). The Increased Capital represented 51% of the entire registered capital of Guizhou Zhongtai. The consideration will be payable by Guangdong Medi-World by installments. The Group is in the proceeding with the necessary legal procedures for completion of the transaction. Upon completion of the transaction, Guizhou Zhongtai will become a subsidiary of the Group.

In conjunction with the Investment Agreement, Guangdong Medi-World and Guizhou Zhongtai also entered into a Loan Agreement on 22 December 2011 pursuant to which Guangdong Medi-World agreed to advance a loan in the amount of RMB70 million (approximately $84 million) to Guizhou Zhongtai. The loan is interest free, secured by a charge over the existing shareholding in Guizhou Zhongtai held by Henan Xintai, and shall be utilized by Guizhou Zhongtai for repayment of the shareholder's loan owned by Guizhou Zhongtai to Henan Xintai. The loan will be repayable after the payment of the first installment of the consideration for the investment. Guangdong Medi-World had advanced loan in the amount of RMB66 million (approximately $81 million) (note 17) to Guizhou Zhongtai as at 31 December 2011.

(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 2011

Up to the date of issue of these financial statements186, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, Income taxes – *Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

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 have a significant impact on the Group's results of operations and financial position.

34 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2007 $'000	2008 $'000	2009 $'000	2010 $'000	**2011** **$'000**
Results					
Turnover	355,880	443,533	670,175	939,178	**1,015,935**
Profit from operations	34,164	54,783	95,786	119,061	**102,144**
Finance costs	(1,258)	(1,378)	(5,321)	(3,831)	**(7,689)**
Profit before taxation	32,906	53,405	90,465	115,230	**94,455**
Income tax	(7,871)	(4,938)	(22,239)	(29,151)	**(20,747)**
Profit for the year	25,035	48,467	68,226	86,079	**73,708**
Attributable to:					
– Equity shareholders of the Company	8,396	20,330	44,054	60,925	**72,072**
– Non-controlling interests	16,639	28,137	24,172	25,154	**1,636**
	25,035	48,467	68,226	86,079	**73,708**
Earnings per share					
Basic and diluted	1.01 cents	2.45 cents	2.82 cents	3.53 cents	**4.04 cents**

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2007 $'000	2008 $'000	2009 $'000	2010 $'000	**2011** **$'000**
Assets and liabilities					
Other Property, plant and equipment	141,817	135,763	247,352	237,500	**253,093**
Investment properties	7,963	8,165	2,543	3,471	**3,426**
Interests in leasehold land held for own use under operating leases	25,349	26,305	97,200	192,544	**199,516**
Construction in progress	144	1,364	14,396	41,745	**87,861**
Other receivables	–	–	–	8,347	**37,707**
Intangible assets	90,701	78,706	135,127	115,174	**101,646**
Goodwill	132,738	141,037	186,197	192,578	**208,644**
Other financial assets	3,953	2,743	5,828	9,840	**8,601**
Deferred tax assets	–	–	6,045	12,612	**12,744**
Net current assets	128,568	189,109	240,062	103,276	**112,661**
Total assets less current liabilities	531,233	583,192	934,750	917,087	**1,025,899**
Deferred tax liabilities	(33,805)	(28,078)	(55,261)	(58,312)	**(52,097)**
Deferred income on government grants	–	–	(7,625)	(9,591)	**(9,487)**
Net assets	497,428	555,114	871,864	849,184	**964,315**
Capital and reserves					
Share capital	83,097	83,097	162,841	178,341	**178,341**
Reserves	241,068	276,207	523,273	657,318	**770,397**
Total equity attributable to equity shareholders of the Company	324,165	359,304	686,114	835,659	**948,738**
Non-controlling interests	173,263	195,810	185,750	13,525	**15,577**
Total equity	497,428	555,114	871,864	849,184	**964,315**