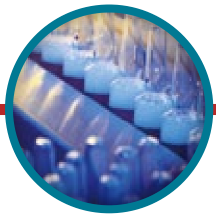
Sihuan Pharmaceutical Holdings Group Ltd.

Annual Report 2011

四环医药
SihuanPharm



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

Corporate Profile

Founded in 2001, Sihuan Pharmaceutical Holdings Group Ltd. ("Sihuan Pharmaceutical") achieved fast growth in the past 10 years and made significant progress on solidifying our position in the Chinese pharmaceutical industry as a consistent leader. Further we have strong capabilities in sales and marketing, production and research and development ("R&D"). Sihuan Pharmaceutical has been the largest cardio-cerebral vascular ("CCV") franchise in China's prescription since 2007. We were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 28 October 2010. The success of the fund-raising has injected further vitality into our rapid expansion.

Sihuan Pharmaceutical marked our eleventh year in operation in 2011. We continue to post impressive performance through actively pursuing mergers and acquisitions ("M&A") in order to drive diversification and growth, as evidenced by the successful identification, acquisition, and integration of high potential assets. We further expanded our market share in the cardio-cerebral vascular prescription drug market and have also grown into the ninth biggest pharmaceutical company in the country's prescription drugs market terms of revenue by hospital purchase price. We currently sells a series of products encompassing the top five medical therapeutic areas in China: cardiovascular system, anti-infective, metabolism, oncology and central nervous system ("CNS"). Our major products such as Kelinao, Anjieli, Chuanqing, Qu'Ao, GM1 and Oudimei are widely used in the treatment of various cardio-cerebral vascular diseases.

Contents

Research and Development

Sihuan Pharmaceutical has one of the largest pharmaceutical R&D teams in China, primarily focusing on developing innovative drugs and first-to-market generic drugs with high market potential. Our key research scientists have on average over 10 years of drug R&D experience accumulated from their tenures at multinational drug companies, and boast extensive professional expertise.

Production

The Company's manufacturing activities are carried out at three main production bases in Beijing, Hebei and Jilin, supplying chemical drugs, raw materials, traditional Chinese medicine ("TCM") and biological drugs, which are in comply with the national GMP standards. Some of our subsidiaries are awarded as "High and New Technology Enterprise".

Sales and marketing

Sihuan Pharmaceutical has a differentiated and proven sales and marketing model. Our academic promotional activities market Sihuan Pharmaceutical as an industry leader, and as a result we have achieved past growth by furthering our geographical penetration, strengthening our extensive nationwide distribution network, expanding our sales and marketing team, and enhancing awareness of the Sihuan Pharmaceutical brand.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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Che Fengsheng *(Chairman)*

Dr. Guo Weicheng *(Deputy Chairman)*

Mr. Meng Xianhui

Non-Executive Directors

Dr. Zhang Jionglong

Mr. Homer Sun

Mr. Eddy Huang

Independent Non-Executive Directors

Mr. Patrick Sun

Mr. Bai Huiliang

Mr. Xu Kangsen

JOINT COMPANY SECRETARIES

Ms. Ma Sau Kuen Gloria

Mr. Choi Yiau Chong

AUTHORISED REPRESENTATIVES

Mr. Choi Yiau Chong

Ms. Ma Sau Kuen Gloria

AUDIT COMMITTEE

Mr. Patrick Sun *(Chairman)*

Mr. Bai Huiliang

Mr. Xu Kangsen

Dr. Zhang Jionglong

REMUNERATION COMMITTEE

Mr. Bai Huiliang *(Chairman)*

Dr. Che Fengsheng

Mr. Patrick Sun

Mr. Xu Kangsen

NOMINATION COMMITTEE

Mr. Xu Kangsen *(Chairman)*

Dr. Guo Weicheng

Mr. Patrick Sun

Mr. Bai Huiliang

INDEPENDENT AUDITOR

PricewaterhouseCoopers

22/F., Prince's Building

Central

Hong Kong

COMPLIANCE ADVISER

Daiwa Capital Markets Hong Kong Limited

Level 28, One Pacific Place

88 Queensway

Hong Kong

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1022 Hamilton HM DX
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HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
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WEBSITE

www.sihuanpharm.com

STOCK CODE

0460

Milestones

2001

- Hainan Sihuan Pharmaceutical Co., Ltd. ("Hainan Sihuan") was founded.

2002

- Developed a differentiated sales and distribution model.

2003

- Kelinao was launched.
- Acquired a 28% interest in Beijing Sihuan Pharmaceutical Co., Ltd. ("Beijing Sihuan") and expanded the Company's business into product manufacturing.
- Chuanqing was launched.

2004

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

2005

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

2006

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

2007

- Sihuan Pharmaceutical was listed on the main board of the SGX-ST on 23 March 2007.
- The Group has commanded the largest share of the cardio-cerebral vascular market in China.
- Hainan Sihuan Cardiocerebral Vascular Drugs Research Institute Co., Ltd. ("Hainan Sihuan CVD Research") became a wholly-owned subsidiary of the Group.

2008

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

2009

- Qingtong was launched.
- MSPEA III Cayman invested and subsequently privatised the Company, which then was delisted from the SGX-ST.

2010

- Listed on the Hong Kong Stock Exchange.
- Ranked No. 4 in the Forbes 2010 list of the most promising enterprises in the PRC (2010 福布斯中國潛力企業榜) and No. 1 among pharmaceutical companies.
- Completed the construction of a pharmaceutical raw material plant, Langfang Sihuan Gaobo pharmaceutical Co., Ltd. ("Langfang Sihuan Gaobo").
- Obtained a 30-year exclusive distribution rights to "Yimaining (益脈寧)" (Alprostadil lipid emulsion injection).

2011

- Acquired Jilin Sihuan Pharmaceutical Co., Ltd. ("Jilin Sihuan", formerly known as Dupromise Pharmaceutical (China) Co., Ltd.) which owns three exclusive drug products and various exclusive drug formulations mainly focused on CCV diseases.
- Acquired 80% interest in Changchun Xiangtong Pharmaceutical Co., Ltd. ("Changchun Xiangtong"), which owns the GM1 injection and API manufacturing facility.
- Acquired Jilin Sichang Pharmaceutical Co., Ltd. ("Jilin Sichang", formerly known as Vinise Pharmaceutical Ltd.) which owns four TCM CCV products with vast market potential. Later in 2011 the Group sold at a premium of 19% equity interest in Jilin Sichang to Shandong Buchang Pharmaceutical Co., Ltd. ("Shandong Bucheng"), a leader in China's TCM market. The Group and Jilin Sichang will continue to jointly develop additional TCM products for CCV diseases.

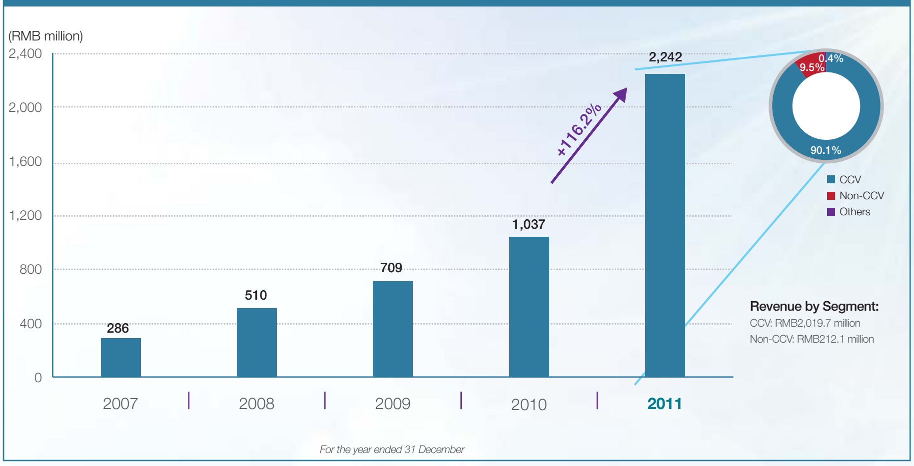
Financial Summary

2011 FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 116.2% to RMB2,242.1 million in 2011 from RMB1,036.9 million in 2010.
- Gross profit margin improved from 71.8% in 2010 to 76.5% in 2011.
- Profit attributable to owners of the Company increased by 57.8% to RMB824.0 million in 2011.
- Basic earnings per share increased by approximately 22.0% over 2010 to approximately RMB15.90 cents.
- A final dividend of RMB2.5 cents per share and a special dividend of RMB7.2 cents per share were recommended by the Board and are subject to the approval of the shareholders at the annual general meeting of the Company to be held on 1 June 2012.

RMB'000	2007	2008	2009	2010	**2011**
Operating results					
Revenue	286,349	510,048	708,907	1,036,881	**2,242,063**
Gross profit	225,823	376,497	516,992	744,743	**1,714,464**
Operating profit	186,979	276,172	373,025	613,313	**990,348**
Profit before income tax	184,452	287,069	381,026	635,083	**1,044,856**
Profit and total comprehensive income for the year attributable to equity owners of the Company	179,266	237,059	326,316	522,065	**824,048**
Profitability					
Gross margin	78.9%	73.8%	72.9%	71.8%	**76.5%**
Net profit margin	62.6%	46.5%	46.0%	50.3%	**36.8%**
Earning per share					
Basic and diluted *(RMB cents)*	4.81	6.32	8.70	13.03	**15.90**
Asset status					
Total assets	630,546	862,051	1,173,442	6,902,452	**8,854,098**
Equity attributable to equity owners of the Company	524,813	701,216	907,503	6,656,931	**6,945,534**
Total liabilities	105,733	146,191	249,255	242,923	**1,860,155**
Cash and cash equivalents	262,380	331,178	612,859	5,851,379	**3,153,154**
Quick ratio *(times)*	3	3	3	26	**3**
Current ratio *(times)*	3	4	4	26	**3**
Inventory turnover ratio *(days)*	90	84	77	59	**38**
Trade receivables turnover ratio *(days)*	7	2	2	2	**24**
Trade payables turnover ratio *(days)*	33	18	16	27	**20**

Revenue



Gross profit

Chairman's Statement

Dr. Che Fengsheng
Chairman and Chief Executive Officer

Sihuan Pharmaceutical marked its eleventh year in operation in 2011 and our performance has been remarkable.

Despite a very challenging environment, Sihuan Pharmaceutical once again posted exceptional performance, highlighting the strength and adaptability of our business, through seeking valuable M&A opportunities, and receiving government support for our R&D innovations. For the past 10 years, we solidified our position as the largest CCV franchise and have grown into the country's ninth largest pharmaceutical company in terms of revenue in China's prescription drug market. As CEO and Chairman of the Board for Sihuan Pharmaceutical, it is my honor to congratulate every individual at Sihuan Pharmaceutical for achieving these outstanding results in 2011 and to express my sincere gratitude for the support that we have received.

Delivering Strong Financial Performance

We have proven to be a formidable force in the domestic pharmaceutical industry. In 2011 Sihuan Pharmaceutical's revenue rose 116.2% to RMB2,242.1 million and net profits attributable to equity owners grew 57.8% to RMB824.0 million. We have performed better than the Chinese pharmaceutical industry overall, where there has been an average of 20% growth in the last two years. Our highest performing products this year by sales are our CCV drugs, although sales of non-CCV products have increased as well.

Creating an Optimal Product Portfolio

In 2011, we have continued to diversify our product portfolio. This is extremely important as this means we are far less reliant on too few products and are creating a very balanced and diversified revenue stream. We significantly increased the variety in our product offering and produced more flagship products from our newly launched products, and this is creating a more optimized product portfolio.

The market share of our CCV products has risen to 9.4% during the past year. We have maintained steady growth of our existing products such as Kelinao, Anjieli, Qu'Ao, GM1 and Qingtong, which provide a solid foundation for the Company's business. Thanks to our stronger sales and marketing capabilities, sales of our newly launched products, such as Oudimei, Yuanzhijiu and Yimaining recorded significant growth, exceeding one-third of our total sales. Our non-CCV products, such as Zhuo'ao, Bi'ao, Ren'ao and Pojia also recorded satisfactory performance in 2011.

We are very pleased with these overall results, which have been driven by the growth of our existing products and newly launched products.

Effectively Navigating Challenges

Although Sihuan Pharmaceutical's performance during this past year has been commendable, it is important to note that the Chinese pharmaceutical industry overall is still navigating through a number of challenges. New regulations implemented by the Chinese government have created an environment of uncertainty for the industry. Government pricing policy changes, rising labor costs, and the new Good Manufacturing Practice ("GMP") standards created operational hurdles for industry participants and are leading to consolidation and an environment of the survival of the fittest.

However, Sihuan Pharmaceutical has managed to identify and leverage opportunities for further growth. Regulatory pressures have prompted industry consolidation, and this has allowed Sihuan Pharmaceutical to seek valuable merger and acquisition ("M&A") opportunities, and receive government support for its R&D innovations. We are therefore in a strong position to navigate through the industry's regulatory challenges, backed up by our strong sales and marketing capabilities, proven capabilities to innovate, and our optimized product portfolio.

Strengthening R&D, Leveraging Our Sales and Marketing Model, and Driving Operational Improvements

Sihuan Pharmaceutical has had a year of breakthroughs in terms of R&D, with Category I innovative drug Apapenum and exclusive, Category IV new drug Cinepazide Mesilate receiving clinical approval from the State Food and Drug Administration (SFDA). We now have 10 innovative patented drugs at various stages of development and have more than 5 cases pending approval for production licenses, including the Roxatidine injection, a first-to-market generic drug.

We are also focused on effectively developing our proven sales and marketing capabilities. Our academic promotional activities marked Sihuan Pharmaceutical as an industry leader, and as a result we have furthered our geographical penetration, expanded our sales and marketing team, and strengthened awareness of our brand. Our existing products have reached additional clinical departments in hospitals already covered in our distribution network and our newly launched products have reached around 4,000 hospitals.

In line with new GMP standards, we are currently conducting our Company-wide upgrade of production systems. Our Hebei manufacturing plant Langfang Sihuan Gaobo, has already successfully passed the new GMP standards. Overall, we have reinforced Sihuan Pharmaceutical's image as a responsible, conscientious and people-oriented leader in the pharmaceutical industry, and continue to be in compliance with the government's regulatory trajectory.

Planning for Future Growth: Optimizing, Diversifying and Expanding the Business

Going forward, we will focus on optimizing, diversifying and expanding the business. Our plan for growth emphasizes optimizing our portfolio mix and enhancing our highly effective sales and marketing strategies, diversifying our product offerings through M&A and R&D activities, and expanding our market share as we seek out new areas for growth. More specifically we aim to do the following:

Optimize our product portfolio and enhance our sales and marketing strategies to allow us to take advantage of broader market opportunities. In particular, we will focus on maintaining a steady growth of our existing products, supporting fast-growing newly launched products, and improving the range and market share of CCV products to solidify our leading position in China's CCV prescription drug market. For our non-CCV products, we will also explore other therapeutic areas such as oncology and CNS. Lastly, we will also continue to strengthen our proven sales and marketing model to further our penetration in China, in order to maximize the delivery of our existing and newly launched products and drive overall performance.

Diversify our business and product offerings through M&A and R&D activities. We will identify appropriate opportunities for acquisition and collaboration opportunities that complement our existing business model. We have also placed equal importance on R&D during the current year and are looking to expand our efforts beyond pharmaceuticals and into high-growth potential areas such as biotechnology.

Expand the Sihuan Pharmaceutical brand and market presence domestically and internationally. We are actively seeking opportunities for cooperation with overseas pharmaceutical companies in joint ventures and innovation initiatives to optimize our product resources and support the expansion of our business. The regions we are targeting for this kind of activity are North America, Europe, Japan and Taiwan. We also aim to apply for Investigational New Drug ("IND") with the U.S. Food and Drug Administration ("FDA") in 2012 for anti-hypertension drug Tylerdipine Hydrochloride, a Category I innovative drug and our first "internationalized" product drug to apply for both domestic and overseas registration.

I believe that this growth strategy, our leading position and available resources will enable us to capitalize on current and future market opportunities, expand revenue, and deliver sustainable long-term growth.

Expecting Strong Performance Going Forward

For the pharmaceutical industry overall, 2012 will prove to be challenging but will also come with many opportunities. Despite recent regulatory changes and intensified competition in the market, Sihuan Pharmaceutical firmly believes that the pharmaceutical industry will continue to experience robust expansion. The reasons for this are favorable market characteristics and robust demand for pharmaceutical products driven by stable Chinese economic growth, the expansion of medical insurance coverage, the rise of per capita funding standards for medical insurance and maximum reimbursements for medical treatment. China's accelerated urbanization, aging population and burgeoning government support for the biotechnology industry as stipulated in China's 12th Five-Year Plan are also important contributing factors to the Chinese pharmaceutical industry's growth story and Sihuan Pharmaceutical's optimistic industry outlook.

With our current business trajectory and our plans for thoughtful and diversified growth, we believe we will not only achieve our business objectives but will deliver strong shareholder value over the long-term.

Dr. Che Fengsheng
Chairman and Chief Executive Officer

19 March 2012

Management Discussion and Analysis

Business Review

In 2011, the domestic prescription drug market overall experienced growth of 24.7%, mainly driven by the increasing demand for drugs and health care services and higher levels of government investment in the health care and related sectors. The CCV prescription drug market in particular posted stable growth of 28.2%, presenting a niche opportunity for the Company, the largest CCV drug franchise in China's prescription drug market by market share.

Leveraging the robust sales growth of CCV products, a more diverse and optimized product portfolio, and the Company's R&D capabilities, Sihuan Pharmaceutical achieved its internal targets and a 2011 growth rate that outperformed the industry. Specifically, for the year ended 31 December 2011, the Company's revenue grew by 116.2% to RMB2,242.1 million. Net profit attributable to the Company's owners grew by 57.8% to RMB824.0 million.

Importantly, all of this was achieved during what was a relatively challenging year for the Chinese pharmaceutical industry from an operational perspective. The operating environment has been impacted by uncertainties relating to various policies, including the another round of revisions of drug prices according to a new government pricing policy, intensifying market competition caused by the further reduction of drug prices upon the commencement of provincial drug tenders, restrictions on the clinical use of certain anti-infective drugs, as well as the implementation of new Good Manufacturing Practice ("GMP") standards. With this as a backdrop, the fact that Sihuan Pharmaceutical posted such remarkable results highlights its strong product portfolio and operational capabilities.

(i) Cardio-cerebral vascular products ("CCV products")

In 2011, China's CCV market, one of the fastest growing drug sectors in the country, experienced 28.2% growth, outpacing the overall prescription drug market's growth rate of 24.7%. During the same period, the Company maintained its industry-leading position in the Chinese CCV prescription drug market, leveraging its broadening product portfolio and expanded distribution network. According to IMS Heath Incorporated ("IMS"), the market share of the Company's CCV drugs for hospital purchase increased to 9.4% in 2011 from 7.5% in 2010.

Sales of key CCV products:

Product	For the year ended 31 December 2011 (RMB'000)	2010 (RMB'000)	Change	Product Characteristics
Existing products				
Kelinao (Cinepazide Maleate Injection) (80 mg)	**529,430**	456,102	16.1%	For improving the ischemic tissue blood supply and protecting the ischemic tissue. Widely used in the treatments of cardiovascular and cerebrovascular and peripheral vascular diseases.
Anjieli (Cinepazide Maleate Injection) (320 mg)	**202,187**	113,878	77.5%	
GM1 (Monosialotetrahexosylganglioside Sodium Injection)	**143,627**	66,170	117.1%	For neural tissue cells protection and repairing agents; for treatment of traumatic brain injury, cerebral vascular accidents, other central neural system injuries, and Parkinson's disease.
Chuanqing (Ligustrazine hydrochloride for injection)	**82,709**	82,917	-0.2%	Widely used in ischemic cerebrovascular disease, coronary heart disease, cerebral embolism, vasculitis, vascular dementia.
Qu'Ao (Cerebroprotein hydrolysate)	**68,227**	59,059	15.5%	For promoting neural cell metabolism and differentiation and synthesis of brain protein. Widely used in brain cell dysfunction caused by cerebrovascular disease, traumatic brain injury, Alzheimer's disease.
Qingtong (Edaravone Injection)	**45,713**	35,786	27.7%	Oxygen free radical scavenger, widely used in cardiovascular and cerebrovascular diseases, and in peripheral vascular disease (PDA) for people with diabetes.

Product	For the year ended 31 December 2011 (RMB'000)	2010 (RMB'000)	Change	Product Characteristics
Newly launched products				
Oudimei (Cerebroside-Kinin Injection)	**654,859**	N/A*	N/A*	For promoting metabolism of the heart, brain tissues, and neurons of the brain tissue regeneration process, improving cerebral metabolic functions; clinically used for the treatment of dysfunction caused by cardiac and brain diseases.
Aoliankang (Compound of aceglutamide and safflower extract/ Guhong Injection)	**93,870**	N/A*	N/A*	For the treatment of cerebrovascular diseases such as cerebral insufficiency, cerebral embolism and cerebral hemorrhage recovery period; dysfunction caused by the awareness of liver disease, neurological surgery; mental deterioration, and memory impairment.
Yuanzhijiu (Troxerutin and Cerebroprptein Hydrolysate Injection)	**83,236**	N/A*	N/A*	For the treatment of cardiocerebro vascular diseases.
Yimaining (Alprostadil lipid emulsion injection)	**62,410**	3,678	1,596.6%	Used for targeting microcirculation and protecting the organs and tissue cells. Widely used in chronic arteriosclerosis obliterans, unstable angina, myocardial infarction, coronary artery bypass surgery, cerebral infarction, ischemic spinal cord injury, diabetes, peripheral neuropathy, diabetes and kidney disease.

Sales of the Company's CCV products increased 141.1% to RMB2,019.7 million during 2011, accounting for approximately 90.1% of the Company's total revenue. The growth is mainly attributable to the steady sales growth of the Company's existing products and the rapid growth of its newly launched products. Importantly, the Company continued to diversify its product mix, ensuring that revenue contribution is broad-based and balanced.

The Company's existing products, including Kelinao, Anjieli, Qu'Ao and Qingtong, maintained steady sales growth as a result of the Company furthering its geographical penetration, expansion of its sales and marketing team, and strengthening awareness of its brand. More specifically:

— Sales of Kelinao and Anjieli grew by 16.1% and 77.5% to RMB529.4 million and RMB202.2 million respectively;

— Qu'Ao is the second best selling cerebroprotein hydrolysate drug in China with sales up by 15.5% to RMB68.2 million. Its market share increased to 26.4% in 2011 from 21.9% in 2010;

— Despite the reduction in the price of the drug, the Company expanded Chuanqing's market share from 55.1% in 2010 to 60.3% in 2011. Its sales stood at RMB82.7 million during the year versus RMB82.9 million in 2010; and

— GM1 maintained rapid year-on-year growth with its sales doubling to RMB143.6 million. According to IMS, Sihuan's GM1, with a market share of 16.3%, is the third best selling product of its kind in China.

Capitalizing on the Company's strong capabilities in market development, its newly launched products achieved rapid growth, with aggregate sales of these products exceeding one third of the Company's total revenue. Oudimei, Yuanzhijiu and Yimaining recorded strong sales performance, and Oudimei has joined Kelinao and Anjieli to become another flagship product. The Company's new product, Aoliankang (Guhong Injection), which is distributed by the Company, also contributed sales of more than RMB93.9 million.

(ii) Non-cardio-cerebral vascular products ("Non-CCV products")

With an aim to achieve a more balanced and diversified product portfolio and to access opportunities across China's broader prescription drug market, the Company also offers non-CCV drugs to treat targeted therapeutic areas, including but not limited to the central nervous system ("CNS"), the respiratory system and metabolism, as well as anti-infective drugs.

Sales of key Non-CCV products:

	Product	For the year ended 31 December 2011 (RMB'000)	2010 (RMB'000)	Change	Product Characteristics
Respiratory drug(s)	Bi'Ao (Ambroxol Hydrochloride)	**40,955**	38,595	6.1%	Clinical first-line expectorant, phlegm drugs. Used for the expectorant treatment of acute, chronic respiratory diseases. It is also a regular medication taken to avoid lung infections after surgery.
	Zhuo'Ao (Ambroxol Hydrochloride)	**9,115**	4,957	83.9%	Clinical first-line expectorant, phlegm drugs. Used for the expectorant treatment of acute, chronic respiratory diseases. It is also a regular medication taken to avoid lung infections after surgery.
Anti-intective drug(s)	Pojia (Sulbenicillin Sodium)	**36,197**	19,684	83.9%	Broad-spectrum penicillin, with a broad antagonistic spectrum, strong antibacterial activity, a low-level of drug resistance, and is safe and well-tolerated.
Metabolism drug(s)	Luoanming (Amino Acid Injection)	**35,351**	21,992	60.7%	Used for hypoalbuminemia, inadequate protein intake or malabsorption, and protein synthesis obstacles.
Central nervous system drug(s)	Ren'Ao (Oxcarbazepine)	**8,149**	4,941	64.9%	A new generation of antiepileptic drug, with a broad spectrum, high effectiveness and safety. It can be used as an alternative to carbamazepine.

Non-CCV products also recorded satisfactory performance in 2011, which is mainly attributable to stronger sales and marketing capabilities and successful tendering. Sales of these products increased 7.6% to RMB212.1 million, representing approximately 9.5% of total revenue.

Among the Company's non-CCV products, anti-infective drugs have seen decreases in total sales. This is mainly due to government regulations on the clinical usage of anti-infective drugs and general changes in the market. However, the Company will continue to invest and develop other therapeutic areas in order to optimize its product mix, expand the business and enrich its product resources to sustain long-term future growth.

In 2011, the Company stepped up its efforts to promote CNS drugs. Sales of its key product, Ren'Ao, which is used primarily in the treatment of epilepsy, recorded growth of 64.9% to reach RMB8.1 million. The Company's respiratory system drugs, Zhuo'Ao and Bi'Ao, recorded aggregate sales of RMB50.1 million in 2011, representing 15.0% year-on-year growth. Despite restrictions on the clinical use of certain anti-infective drugs, coupled with the reduction in retail prices, sales of Pojia increased by 83.9% to RMB36.2 million. Sales of Luoanming also climbed by 60.7% to RMB35.4 million.

(iii) Sales and Marketing

The Company's remarkable sales performance in 2011 and its sustained growth are largely attributable to its unique sales and marketing model and an extensive nationwide distribution network. To meet the growing market demand driven by its diversifying product portfolio, the Company has devoted considerable efforts to further strengthening its in-house sales and marketing team and expanding its sales network. In 2011, the Company added over 200 staff to its sales and marketing team and established 12 new sales offices.

To ensure the efficiency, productivity and stability of the Company's network, the distributors are managed and supported by an in-house team of sales and product managers. The local knowledge and expertise of the distributors have been proven to form a highly successful and cost-efficient sales model, resulting in rapid and deep market penetration.

During the year the Company conducted training for its sales and marketing team so as to strengthen their capabilities. Also, the Company stepped up its marketing efforts by organizing various academic promotion activities. The Company organized 10 national medical conferences, 59 provincial medical conferences and 1,357 departmental seminars in hospitals in order to forge closer ties with academic experts and further fortify the reputation of the Sihuan's brand and the Company's leading position in the market. As a result of the Company's continuous efforts in securing tenders, the Company boosted its sales by winning tenders for its key products in most regions and at stable price levels. In addition, the Company's existing products have reached additional clinical departments in hospitals covered in its distribution network and its newly launched products have reached around 4,000 hospitals.

(iv) Research and Development

The Company believes that its proven R&D capabilities and promising product pipeline are the keys to continuing to drive sustainable growth. The Company continued its substantial investments in R&D initiatives in the past decade in order to develop innovative drugs as well as first-to-market generic drugs.

Important R&D achievements in 2011

	Project	Product Characteristics	Project Progress
Innovative Drugs R&D Team	Apapenem (艾帕培南)	Beta-lactam anti-infective with the widest antibacterial spectrum and the strongest antibiotic activity.	A Category I Innovative Drug Received approval for the clinical trial.
	Tylerdipine Hydrochloride (鹽酸泰樂地平)	CCV drug for treating hypertension while protecting important organs such as the heart and kidneys.	A Category I Innovative Drug Completed the pre-clinical study. Applied to conduct clinical trials with SFDA.
	Phencynonate Hydrochloride (左旋鹽酸苯環壬酯)	CCV drug for treatment of vertigo symptoms caused by vertebrobasilar ischemia and other diseases.	A Category I Innovative Drug, which will soon complete Phase II of its clinical trials.

	Project	Product Characteristics	Project Progress
Generic Drugs R&D Team	Cinepazide Mesilate (甲磺酸桂哌齊特)	CCV drug for improving the ischemic tissue blood supply and protecting the ischemic tissue. Widely used in the treatments of cardiovascular and cerebrovascular and peripheral vascular diseases.	An exclusive Category IV New Drug which has completed Phase I and will soon commence Phase II of clinical trials.
	Roxatidine Injection (羅沙替丁)	Digestive drug for the treatment of severe stomach acidity and other stomach illnesses.	A Category III Drug first-to-market generic drug. Pending approval for production licenses.
	Nalmefene Hydrochloride (鹽酸納美芬)	Drug to prevent and reverse the effects of opioids, including respiratory depression, sedation and hypotension.	Pending approval for production licenses.

The Company's innovative drugs R&D team is one of the largest R&D teams of its kind in China, comprising 299 personnel, 13 doctorate degree holders and 140 master's degree holders. At present, the Company has 10 innovative patented drugs at various stages of development. During 2011, the team received approval for clinical trials of Apapenem (艾帕培南), a Category I innovative drug, for the Company. The Company's Phencynonate Hydrochloride (左旋鹽酸苯環壬酯), a Category I innovative drug, will soon complete Phase II of its clinical trials, and Tylerdipine Hydrochloride (鹽酸泰樂地平), another Category I innovative drug, is an anti-hypertension medication which also helps to protect heart and kidney function, has completed pre-clinical studies and successfully applied to conduct clinical trials with the SFDA. The Company has four other innovative drugs pending approval for clinical trials.

Highlighting the strength of the innovative drug team, in 2011 two of the Company's key research scientists were included in the "One-thousand-talent Scheme" (千人計劃) and "Ten-thousand-talent Scheme" (萬人計劃), respectively. These schemes, implemented by the Chinese government, aim to boost innovation capability in China and provide attractive salaries and funding to the selected researchers.

The development of generic drugs is supported by a team of 59 personnel, 4 doctorate degree holders and over 20 master's degree holders. The team has received approval for the clinical trial of Cinepazide Mesilate (甲磺酸桂哌齊特), an exclusive Category IV New Drug, which has finished phase I of clinical trials and will commence the phase II of clinical trials soon. In addition, the team has more than five cases pending approval for production licenses, including Roxatidine injection (羅沙替丁), a first-to-market generic drug, and Nalmefene Hydrochloride (鹽酸納美芬).

In 2011, the Company newly filed 56 patent applications, including six Patent Cooperation Treaty ("PCT"), and has been granted 75 patent rights. 2 projects won national awards: Apapenem (艾帕培南) was awarded as "Major Innovative Drug in the 12th Five-Year Plan" ("十二五"重大新藥創製專項) and Cinepazide (桂哌齊特) as "Important Technical Advancement of Major Innovative Drug Type in the 12th Five-Year Plan" ("十二五"重大創製大品種技術改造). The Company's R&D team also began/added 20 new projects during the year, bringing the total number of projects to more than 70.

(v) Production

The Company's manufacturing activities are carried out at the following three main production bases:

Chemical drugs production base

Beijing Sihuan is the production base of the Company's chemical drugs and was granted the "High and New Technology Enterprise" (高新技術企業) status. Beijing Sihuan operates six production lines at its chemical medicine production plant in Tongzhou District, Beijing. To meet the growing demand for chemical medicine, construction of a new production and R&D centre in the Zhangwan Development Zone of Tongzhou District commenced in 2011. With a total site area of 175 mu, the center is expected to complete construction in August 2013.

Active pharmaceutical ingredient and intermediates production base

Langfang Sihuan Gaobo in Langfang, Hebei Province is the production base for active pharmaceutical ingredient ("API") manufacturing and pharmaceutical intermediates. The base commenced production and sales in the first half of 2011, and it has also successfully passed the new GMP standards in September 2011. During the year, the plant commenced production of major APIs such as Cinepazide Maleate (馬來酸桂哌齊特), Naloxone Hydrochloride (鹽酸納絡酮) and Oxcarbaxepine (奥卡西平) etc.

Production base for TCM and other products

Jilin Sihuan recently granted the "High and New Technology Enterprise" (高新技術企業) status), Changchun Xiangtong, and Jilin Sichang are the production bases of the Company's TCM and other products in northern China. They will be upgraded to boost the overall production capacity of the Company. In compliance with the new GMP standards, the plants are expected to finish their upgrades by the end of 2013.

To ensure that the Company's facilities comply with the new GMP standards as well as improve cost efficiency, Sihuan Pharmaceutical has exerted relentless effort into improving the quality control of its key products and upgrading the newly acquired production facilities.

As a result, quality control was well managed during 2011. The application to raise the product quality standards of Kelinao and Anjieli for the third time has been approved by the SFDA. The significant advancement in national quality standards of these products has raised barrier to new entrants. The Company has also conducted studies with an aim to raise the standards of quality of Oudimei and Yuanzhijiu etc.

(vi) Mergers and Acquisitions

The Company continues to be active in pursuing M&A in order to drive diversification and growth, as evidenced by the successful identification, acquisition, and integration of high-potential assets, obtaining several exclusive products, such as Oudimei and Yuanzhijiu.

In July 2011, the Company acquired a 100% equity interest in Smart Baskets Investment Limited ("Smart Baskets"), the sole equity holder of Jilin Sichang, through its wholly-owned subsidiary Sun Moral International (HK) Ltd. ("Sun Moral"). The strategic move enabled the Company to immediately enter China's TCM market by adding four key CCV products with vast potential to its product portfolio, including Breviscapine and Sodium Chloride Injections, Scutellarin Glucose Injections, Salviae Miltiorrhizae Ligustragine Hydrochloride and Glucose Injections. Included in either provincial or national medical insurance catalogues, these products are widely used among clinical physicians due to their efficacy and safe profiles.

Subsequent to this acquisition, the Company signed an agreement to conditionally sell a 50% equity interest in Jilin Sichang to Shangdong Buchang in July 2011. The equity sale demonstrates the close cooperation between Shandong Buchang and the Company in their joint efforts to develop the existing four major products of Jilin Sichang as well as more TCM products for the treatment of CCV diseases. Capitalizing on Shandong Buchang's leading position in China's TCM market, the cooperation will expedite the Company's market expansion into the TCM sector and further consolidate the Company's leading position in the entire CCV market.

Leveraging the Company's highly efficient management and sales systems, Sihuan Pharmaceutical demonstrated its ability to integrate its newly acquired businesses into its existing business in terms of their financial management system, quality control and efficiency of production system and sales and marketing system. The Company's ability to smoothly and effectively integrate newly acquired businesses generates impressive synergies that will drive sustainable future growth.

Future Prospects

Looking ahead, Sihuan Pharmaceutical is well-positioned for long-term growth. Despite ongoing challenges in the pharmaceutical industry due to policy changes, the Company believes that the industry will remain one of the fastest growing in China. This view is underpinned by favorable market characteristics and robust demand for pharmaceutical products driven by stable Chinese economic growth, the expansion of medical insurance coverage, the rise of per capita funding standards for medical insurance and maximum reimbursements for medical treatment. China's accelerated urbanization, aging population and burgeoning government support for the biotechnology industry as stipulated in China's 12th Five-Year Plan are also important contributory factors to the Chinese pharmaceutical industry growth story and Sihuan Pharmaceutical's optimistic industry outlook.

Sihuan Pharmaceutical's leading market position, sufficient resources, and focused growth strategy enable it to capture market opportunities in China's evolving health care environment. Moving forward, the Company will be focused on optimizing its product portfolio, enhancing its proven sales and marketing strategies, diversifying its product offerings through M&A and R&D activities, and expanding its market share as it seeks out new areas for growth. Each of these focal points will help Sihuan Pharmaceutical expand revenue, grow its business and deliver sustainable long-term growth for its shareholders. The main components of Sihuan Pharmaceutical's growth strategy are outlined below.

Optimize product portfolio

The Company will leverage management's extensive health care experience and strong understanding of market trends and government policies to optimize its product portfolio. It will allow the Company to take advantage of broader market opportunities and expand its revenue sources by focusing on:

i) Maintaining steady growth of its existing products such as Kelinao, Anjieli, Qu'Ao, Qingtong and GM1, which provide a solid foundation for the Company's business;

ii) Supporting its fast-growing products, such as Oudimei, Yuanzhijiu, Yimaining/Yimaikang and Guhong, which are set to outpace growth of the industry as a whole;

iii) Promoting newly acquired TCM products with high-market potential, among which Scutellarin Glucose injections and Salviae Miltiorrhiza and Ligustrazine injections, which were added to the Company's product portfolio after the acquisition of Jilin Sichang in July 2011, were launched in November. With expanding market coverage, the Company expects that these products will gradually increase their contributions to the Company's revenue in 2012 after tenders in different regions and provinces.

iv) Investing in its robust product pipeline which has various products set for launch in 2012, including Roxatidine Hydrochloride Injection (注射用鹽酸羅沙替丁) and Nalmefene Hydrochloride (鹽酸納美芬). The Company believes that these products with great potential will achieve fast growth after they are launched.

Enhance sales and marketing strategies

The Company will continue to enhance its proven sales and marketing model, which remains a key differentiator and growth driver for its business. Further refinement in this model will also help effectively leverage the Company's ability to successfully integrate and manage new products and its large sales and marketing network. Enhancing the Company's sales and marketing strategies will concentrate on the following initiatives:

i) Expanding its sales and marketing teams, and providing additional professional training to its sales and marketing teams in order to enhance their product knowledge and professionalism;

ii) Implementing marketing strategies to address the specific needs and characteristics of different markets, hospitals and clinical departments to increase growth in third and fourth tier cities and market saturation in existing areas;

iii) Securing tenders of existing and new products at stable price levels to provide more steady and long-term sales performance; and

iv) Establishing quick, market brand awareness and subsequent clinical usage of newly acquired products through academic and media promotion events, seminars, and conferences.

Seek appropriate strategic M&A and collaboration opportunities

Sihuan Pharmaceutical's M&A and collaboration activities continue to be an important part of the Company's business and product development, and are key catalysts for sustainable future growth. The Company will continue to identify appropriate M&A and collaborative opportunities that are in line with its view of market trends and demands across all product types to create synergies with its existing product development and business goals.

The Company places significant emphasis on engaging with companies that possess products complementary to its own product mix and which enjoy fast-growing market demand, high levels of efficacy and international recognition. Furthermore, as the Company solidify its leading position in the CCV area while expanding into other therapeutic areas, it will also explore both local and international opportunities in North America, Europe, Japan and Taiwan in high-growth potential areas such as biotechnology area, a key focus in China's 12th Five-Year Plan. The Company will also explore other therapeutic areas such as oncology and CNS.

Enhance R&D and production capabilities

Sihuan Pharmaceutical will increase its R&D product development capabilities by investing further in its R&D team and development of key projects in pipeline. This initiative will help reduce time required to commercialize the Company's new products, diversify its product portfolio through the development of new drugs and consolidate its leading market position.

As part of this strategy, the Company commenced construction of a new R&D and production center in Tongzhou in 2011, and continues to invest in upgrading its existing and newly acquired facilities in compliance with new GMP standards and industry quality control requirements.

Expand market share

The Company's leading market share and distribution network are key contributors to its continued growth. Sihuan Pharmaceutical will focus on expanding its market share in China, a task which incorporates all aspects of its growth strategy.

In China, the Company will utilize its proven sales and marketing model and robust network to expand its market share across its leading CCV and non-CCV products. The Company will leverage its local knowledge and expertise of its sales and marketing team to efficiently and sustainably deepen market penetration.

Over the long-term, Sihuan Pharmaceutical will also explore appropriate opportunities to expand into markets outside of China as it seeks to develop its business and grow its brand in other growth markets.

Financial Review

Revenue

In 2011, the Company continued to strengthen its CCV drug franchise and focused on expanding into new product markets through acquisitions. Our sales revenue was driven by increased sales of other therapeutic drugs with prospects for rapid growth. Total revenue increased by 116.2% from RMB1,036.9 million in 2010 to RMB2,242.1 million in 2011. The increase in revenue was mainly attributable to strong growth in sales of CCV drugs, particularly those newly launched products.

Revenue from sales of CCV drugs amounted to approximately RMB2,019.7 million in 2011, representing approximately 141.1% growth over 2010 and accounting for approximately 90.1% of the Group's turnover. The increase was primarily due to the strong demand for our new products such as Oudimei after massive promotional and marketing activities undertaken through our distribution network. Additional regional sales offices were also set up in order to penetrate into cities such as Changchun and Dalian and its surrounding areas. The increase in revenue from sales of CCV drugs was mainly attributable to sales of products acquired since our listing on the Main Board of the Stock Exchange, which contributed revenue of RMB928.2 million, or 41.4% of the total revenue from sales during the year. Sales revenue of Kelinao and Anjieli, our core products, increased by 16.1% and 77.5% from RMB456.1 million and RMB113.9 million in 2010 to RMB529.4 million and RMB202.2 million in 2011, respectively. Revenue from sales of GM1 increased by 117.1% from RMB66.2 million in 2010 to RMB143.6 million in 2011. Sales of Qingtong also rose 27.7% to RMB45.7 million in 2011 from RMB35.8 million in 2010.

Our revenue derived from anti-infective drugs recorded approximately 0.4% growth to RMB86.8 million in 2011 from RMB86.4 million in 2010, accounting for approximately 3.9% of the Group's total revenue, despite the introduction of PRC government measures that restrict the use of anti-infective drugs. Revenue of other drugs increased by approximately 13.2% to RMB125.4 million, accounting for approximately 5.6% of the Group's total revenue. The increase in sales revenue of anti-infective and other drugs was primarily due to the fact that the revenue from sales of Pojia (Sulbenicillin Sodium for Injection), a new product introduced in 2010, increased by approximately 83.9% to RMB36.2 million, and total sales of Luoanming increased by 60.7% from RMB22.0 million in 2010 to RMB35.4 million in 2011. Sale of active pharmaceutical ingredient and intermediates also contributed RMB9.2 million in 2011.

Cost of sales

Cost of sales rose to RMB527.6 million in 2011 compared to RMB292.1 million in 2010. The percentage of cost of sales to revenue dropped from 28.2% in 2010 to 23.5% in 2011 due to a higher proportion of sales of products manufactured in our own production facilities, as well as tightened control over production costs and improved economies of scale.

Gross profit

Our gross profit increased by 130.2% from RMB744.7 million in 2010 to RMB1,714.5 million in 2011. Overall gross profit margin improved to 76.5% in 2011 from 71.8% in 2010, which was mainly due to an increased proportion in our product mix of products with higher gross profit margins manufactured by our newly-acquired companies, as well as lower costs of production.

Other gains — net

Other net gains increased from RMB54.1 million in 2010 to RMB108.5 million in 2011. This was mainly due to an increase in government grants received by the Group from RMB51.0 million in 2010 to RMB116.0 million in 2011.

Distribution costs

The proportion of our distribution costs to total revenue increased to 28.2% or RMB631.6 million in 2011 from 5.5% or RMB56.7 million in 2010. The increase was mainly due to marketing costs related to sales of our newly acquired subsidiaries in 2011, as their sales and marketing activities relied heavily on third party service providers. Furthermore, the Group employed a larger sales force and conducted intensive marketing activities.

Administrative expenses

Administrative expenses increased by 56.1% from RMB128.8 million in 2010 to RMB201.1 million in 2011. The increase was primarily due to an increase in administrative expenses related to the growth and expansion of the Group, and integration-related expenses incurred for after the acquisitions during the year.

Net finance income

Net finance income increased from RMB21.8 million in 2010 to RMB54.5 million in 2011. The increase was mainly due to increases in interest income received by the Group.

Income tax expenses

Our income tax expense increased by 91.0% from RMB128.2 million in 2010 to RMB244.8 million in 2011.

Our effective tax rates for 2010 and 2011 were 20.2% and 23.4%, respectively. The increase in our effective tax rate was mainly attributable to the combined effects of the corporate income tax rate of 25% applicable to the newly acquired companies and the additional withholding tax provided for dividends payable according to the PRC tax regulations.

Profit attributable to owners of the Company

Profit or net profit attributable to our owners increased by 57.8% from RMB522.1 million in 2010 to RMB824.0 million in 2011.

Non-controlling interests

Losses attributable to non-controlling interests increased by 57.9% from RMB15.2 million in 2010 to RMB24.0 million in 2011, which was mainly due to the loss contributed by KBP BioSciences.

Liquidity and financial resources

As at 31 December 2011, the Group's cash and cash equivalents amounted to RMB3,153.2 million as compared to RMB5,851.4 million as at 31 December 2010. We generally deposit our excess cash in interest-bearing bank accounts and current accounts. We may also invest our excess cash in short terms investments in order to obtain a better return from our excess cash. In this connection, members of the Group entered into agreements with certain financial institutions in the PRC for the investment of its excess cash. During the period from 17 November 2011 to 31 December 2011, members of the Group have, pursuant to such agreements, invested a total principal amount of RMB778.5 million. The investments made by the Group under the agreements were short-term investments and consisted of certain pre-agreed discounted bank acceptance bills and commercial acceptance bills acquired through certain PRC trust companies and the financial planning products purchased from certain PRC State-owned banks. For the said financial planning products, the banks, as the issuers of the financial planning products, have the discretion to invest the funds from the Group in instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills and bank deposits.

The principal amount of the investments of RMB778.5 million together with the interest received of approximately RMB1.6 million, resulting in a total amount of approximately RMB780.1 million were recognized as available-for-sale financial assets in the consolidated balance sheet of the Company as at 31 December 2011. As at the date of this annual report, investments with a total principal amount of RMB580.0 million have already been disposed of/repaid.

Save as disclosed below, the Group did not have other liabilities and bank loans, as a result of which, our gearing ratio (net debt to equity attributable to owners of the Company plus net debt) is less than 1%.

The Group has sufficient cash as at 31 December 2011 and 2010. The directors are of the opinion that the Group does not have significant capital risk.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cash and cash equivalents	**3,153,154**	5,851,379
Less: Borrowings (Note)	**(5,880)**	—
	3,147,274	5,851,379

Note: For details of the borrowings, please refer to note 21 to the Financial Statements.

Trade and other receivables

Our trade receivables consist of the credit sales of our products to be paid by our distributors. Other receivables consist of prepayments to suppliers, deposits and other receivables. Our trade and other receivables increased by RMB458.9 million from RMB259.9 million as at December 31, 2010 to RMB718.8 million as at December 31, 2011. The increase in trade and other receivables was mainly due to the increases in credit sales, prepayments to suppliers, deposits for research and development and cooperation and other receivables, along with the increase in sales.

Inventory

Our inventory as at December 31, 2011 amounted to RMB57.7 million (December 31, 2010: RMB53.3 million). In 2011, the inventory turnover days of our finished products was 17.9 days due to the strong demand for our products before year end (2010: 27.5 days). We had no inventory impairments in 2011.

Property, plant and equipment

Our property, plant and equipment consist of buildings, production and electronic equipment, motor vehicles and construction in progress. As at December 31, 2011, the net book value of our property, plant and equipment amounted to RMB419.3 million, representing an increase of RMB166.1 million, or approximately 65.6%, as compared with the previous year. The increase was mainly attributable to the property, plant and equipment from newly acquired subsidiaries; the purchase of property, plant and equipment for our administrative offices, existing and new production facilities; and the purchase of certain laboratory equipment for our research centre.

Intangible assets

Our intangible assets mainly consist of goodwill, customer relationships, deferred development costs and product development in progress. Our goodwill improved from the acquisitions of our subsidiaries. The deferred development costs and product development in progress mainly represent the acquisitions of certain pharmaceutical R&D projects from external research institutions. For these acquisitions, our management examined the technical feasibility of completing the remaining phases of the products and estimated that they would provide future economic benefits to the Group. Accordingly, our management recognized these costs as deferred development costs and product development in progress under intangible assets. As at 31 December 2010, net intangible assets amounted to RMB3,080.1 million (31 December 2010: RMB153.5 million), mainly resulting from the deferred development costs obtained by the subsidiaries newly acquired by the Group in 2011, the goodwill generated from the acquisitions and the increase in the Group's product development in progress.

Trade and other payables

Our trade and other payables primarily consist of trade payables, advances from customers, other payables, accrued expenses and amounts due to Directors. As at 31 December 2011, trade and other payables amounted to RMB1,540.3 million, representing an increase of RMB1,401.4 million as compared with 31 December 2010. The increase was mainly due to the remaining balance payable for the acquisitions of subsidiaries in 2011.

Contingent liabilities and guarantees

As of 31 December 2011, the Group had no material contingent liabilities or guarantees (2010: nil).

Off-balance sheet arrangements and commitments

Apart from the capital commitment and operating commitment in Note 30 to the Financial Statements, we have not entered into any off-balance sheet arrangements or commitments to provide guarantees for any payments or liabilities of any third parties. We did not have any variable interests in any unconsolidated entities that provide financing or liquidity, create market risk or offer credit support to us or that engage in the provision of leasing, hedging or research and development services to us.

Pledge of assets

As at 31 December 2011, none of our assets was pledged.

Treasury policies

The Group finances its ordinary operations with internally generated resources.

Capital commitment

As of 31 December 2011, the Group had a total capital commitment of RMB34.9 million, mainly set aside to acquire property, plant and equipment and intangible assets.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in a financial loss for us. We have no significant concentrations of credit risk. Credit risk arises mainly from cash and cash equivalents, trade and other receivables, available-for-sale financial assets and held-to-maturity financial assets. The carrying amounts of cash equivalents, short-term bank deposits, trade and other receivables, available-for-sale financial assets and held-to-maturity financial assets represent our maximum exposure to credit risk in relation to our financial assets.

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

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

With respect to available-for-sale financial assets, we invest in discounted bank acceptance bills and commercial acceptance bills of large PRC state-owned banks.

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

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

Foreign exchange risk

As all of our revenues are generated from our businesses in the PRC, RMB is our functional currency. Our financial instruments are denominated in RMB. We are not subject to material currency risk as we have no major cash and cash equivalents denominated in foreign currency. As at 31 December 2011, approximately 93.6% and 6.3% of our cash and cash equivalents were denominated in RMB and US dollars, respectively, and the remaining cash and cash equivalents were denominated in Singapore dollars and Hong Kong dollars. Nevertheless, dividend payment of foreign currency converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government.

Capital expenditure

Our capital expenditure primarily consists of the purchase of property, plant and equipment, land use rights and intangible assets. In 2011, our capital expenditures was amounted to RMB261.2 million, of which RMB114.5 million was spent on property, plant and equipment, RMB97.5 million was spent on purchasing intangible assets and the remaining RMB49.2 was spent on acquisition of land use rights.

Material acquisitions and disposals

The total acquisition cost of the Group in 2011 was approximately RMB3,351.8 million. The Group completed the following acquisitions: 1) 100% equity interest in Dupromise Holdings Limited ("Dupromise") and its subsidiary at a consideration of approximately RMB2,400.0 million; 2) 80% equity interest in Changchun Xiangtong at a consideration of approximately RMB140.6 million; 3) Benxi Hengkang Pharmaceutical Co. Ltd. ("Benxi Hengkang") at a consideration of approximately RMB36.2 million; and 4) 100% equity interest in Smart Baskets and its subsidiaries at a consideration of approximately RMB775.0 million.

The considerations of the acquisitions above were determined after arm's length negotiation and conformed to the fair market valuation made by a third party valuer or the audited asset value of the acquisition targets.

During the reporting period, the Group disposed of a 19% equity interest in Jilin Sichang, a subsidiary of the Group, to a third party at a consideration of approximately RMB242.3 million under the first completion, the remaining 31% of equity interest should take place in second completion on or before 31 December 2012.

Human Resources and Remuneration of Employees

Human resource is an indispensable asset to the success of the Group in a competitive environment. The Group provides competitive remuneration package to all employees, including salaries and bonuses to qualified employees, as well as a long-term incentive scheme in the form of an employee share award scheme for eligible management personnel and employees, details of which are set out under the paragraph headed "Employee Share Award Scheme" in the Report of the Directors in this annual report. The Group reviews its own human resources and remuneration policy regularly, to encourage them to work towards enhancing the value of our Company and promoting the long-term growth of our Company.

As at 31 December 2011, the Group had 1,587 employees. For the year ended 31 December 2011, total salary and related costs of the Group were RMB95.6 million (2010: RMB65.3 million).

Biographical Details of Directors and Senior Management

Executive Directors

Dr. Che Fengsheng (車馮升), aged 50, is our Chairman and CEO and was appointed to our Board on 18 May 2006. He is a co-founder of our Group. Dr. Che is responsible for the overall management, strategic planning and business development of our Group and is instrumental to our growth and business expansion since our establishment in 2001. Prior to our establishment, Dr. Che had more than eight years of experience as a medical doctor/neurologist and 17 years of experience in the sales and marketing of pharmaceutical products and the management of pharmaceutical companies. From 1991 to 1993, Dr. Che held the position of chief neurologist and lecturer at the First Military Medical University, Zhu Jiang Hospital, Guangzhou City, PRC (廣州市第一軍醫大學珠江醫院). From 1990 to 1991 and 1984 to 1987 respectively, Dr. Che was a neurologist and an assistant lecturer at Xijing Hospital Affiliated with the Fourth Military Medical University in Xi'an City, PRC (西安第四軍醫大學附屬西京醫院).

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

Dr. Guo Weicheng (郭維城), aged 48, is our deputy chairman and was appointed to our Board on 18 May 2006. He is a co-founder of our Group. Dr. Guo is responsible for the overall operations of our Group and our research and development activities, with a focus on strategic planning, particularly in relation to mergers and acquisitions and product collaborations. He has also become responsible for Shenzhen Sihuan's overall operations after it was acquired in 2007. Dr. Guo is instrumental to our Group's growth and business expansion since our establishment in 2001. Prior to our establishment, Dr. Guo had more than four years of experience as a general surgeon and more than 17 years of experience in the sales and marketing of pharmaceutical products. From 1992 to 1993, Dr. Guo held the position of chief surgeon in Guangzhou Military 177 Hospital. Dr. Guo was a surgeon and assistant lecturer at the Fourth Military Medical University, Tang Du Hospital, Xi'an City, PRC from 1986 to 1989. Dr. Guo received his Bachelor of Medicine and Master of Medicine (General Surgery) from the Fourth Military Medical University, PRC in 1986 and 1992, respectively.

Mr. Meng Xianhui (孟憲慧), aged 48, is our executive Director and deputy general manager and was appointed to our Board on 18 May 2006. He joined our Group in 2002 and is responsible for public and governmental relationships as well as operations of the sales and marketing network of our Group in certain regions. Prior to joining our Group, Mr. Meng had more than seven years of experience in the pharmaceutical industry in the areas of marketing, sales and distribution of pharmaceutical products. Between 1987 and 1997, Mr. Meng was the departmental head of Jilin Materials Bureau (吉林省物資局) where he was responsible for planning the allocation and distribution of production materials. Mr. Meng was conferred the title of Economist by the Jilin Provincial Government in 1993.

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

Non-Executive Directors

Dr. Zhang Jionglong (張炯龍), aged 50, is our non-executive Director and was appointed to our Board on 18 May 2006. He joined our Group in 2005 and has more than nine years of experience as a medical doctor. From 1983 to 1992, Dr. Zhang worked as a medical doctor in Shenzhen City People's Hospital, one of the largest hospitals in Shenzhen City, PRC. Dr. Zhang received a Graduate Certificate in Medical Treatment from Shantou Medical College, PRC (汕頭醫學專科學院) (now known as Shantou University Medical College (汕頭大學醫學院)) in 1983.

Mr. Homer Sun (孫弘), aged 41, is our non-executive Director and was appointed to our Board on 18 August 2011. Mr. Homer Sun is currently the Chief Investment Officer of Morgan Stanley Private Equity Asia and leads the China investments for Morgan Stanley Private Equity Asia. Mr. Sun is also a Managing Director of Morgan Stanley Asia Limited and a member of the China Management Committee which is comprised of Morgan Stanley Asia Limited's most senior business leaders within China. He is currently the Non-Executive Director of Shanshui Cement Group (stock code: 691), China Flooring Holding (stock code: 2083), China XD Plastics (a company listed on the NASDAQ stock exchange, ticker: CXDC) and Yongye International (a company listed on the NASDAQ stock exchange, ticker: YONG). Mr. Sun joined Morgan Stanley Asia Limited in 2000 and worked for six years on various mergers and acquisitions in Greater China in the Investment Banking Division prior to joining Morgan Stanley Private Equity Asia Limited. From 1996 to 2000, he was a corporate attorney with Simpson Thacher & Bartlett in New York and Hong Kong, specializing in mergers and acquisitions. Mr. Sun received a B.S.E. in Chemical Engineering, magna cum laude, from the University of Michigan in 1993 and a J.D, cum laude, from the University of Michigan Law School in 1996. He acted as a non-executive Director for the period from 13 December 2009 to 3 June 2011.

Mr. Eddy Huang (黃翊), aged 37, is our non-executive Director and was appointed to our Board on 18 August 2011. Mr. Huang is currently a Managing Director at The Blackstone Group where he is focused on Greater China Investment. Previously, he was an managing director of Morgan Stanley Asia Limited and a senior member of Morgan Stanley Private Equity Asia focusing on China investments. Mr. Eddy Huang has been with Morgan Stanley Asia Limited since 2003 and advised on a broad range of technology, media and communications transactions for the Investment Banking Division of Morgan Stanley Asia Limited prior to joining Morgan Stanley Private Equity Asia. Prior to joining Morgan Stanley Asia Limited, Mr. Huang was previously with the Investment Banking Division of Morgan Stanley in New York and the Financial Institutions Investment Banking Group of Merrill Lynch in New York. Mr. Huang is a director of CIMIC Industrial Group Ltd. and its subsidiary, Shanghai CIMIC Tiles Co., Ltd., which is a Shenzhen-listed company (Stock Code: 002162), as well as a director of China Flooring Holding Company Limited (Stock Code: 2083). Mr. Huang received a Bachelor of Arts in Economics and East Asian Studies from Yale University in 1997 and a Master of Business Administration from Harvard Business School in 2002. He acted as a non-executive Director for the period from 5 August 2011 to 3 June 2011.

Independent Non-executive Directors

Mr. Patrick Sun (辛定華), aged 53, is an independent non-executive Director of our Company and was appointed to our Board on 7 October 2010. Mr. Sun has been an independent non-executive director and non-executive chairman of Solomon Systech International Limited (Stock Code: 2878) from February 2004, an independent non-executive director of China Railway Group Limited (Stock Code: 390) from August 2007, an independent non-executive director of Trinity Limited (Stock Code: 891) from October 2008, an independent non-executive director of China NT Pharma Group Company Limited (Stock Code: 1011) from March 2010, and an independent non-executive director of Renhe Commercial Holdings Company Limited (Stock Code: 1387) from December 2011 (all of which are listed on the Stock Exchange). Mr. Sun has been an independent non-executive director of China CNR Corporation Limited (Stock Code: SH601299), which is listed on the Shanghai Stock Exchange) from February 2012. He is currently a vice chairman of the Chamber of Hong Kong Listed Companies and was formerly its Honorary Chief Executive Officer from December 2002 to September 2004. He was a member of the Takeovers & Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Exchange from 1995 to 1997 and from 1999 to 2001, Deputy Convenor/Chairman of the Listing Committee from 1996 to 2002 and a member of the Council of the Stock Exchange from 1995 to 2000. He was previously the Senior Country Officer and Head of Investment Banking for Hong Kong of JPMorgan Chase from 2000 to 2002. He also previously served as an executive director and chief executive officer of Value Convergence Holdings Limited (Stock Code: 821) from August 2006 to October 2009, executive director of SW Kingsway Capital Holdings Limited (Stock Code: 188) from September 2004 and May 2006 (both of which are listed on the Stock Exchange), group executive director and co-head of Investment Banking of Jardine Fleming Holdings Limited from 1996 to 2000, independent non-executive director of Link Management Limited between September 2004 and July 2007, and independent non-executive director of Everbright Pramerica Fund Management Co., Ltd.. Mr. Sun graduated from the Wharton School of the University of Pennsylvania, United States with a Bachelor of Science in Economics in 1981. Mr. Sun is a fellow of the Chartered Association of Certified Accountants, United Kingdom, and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Bai Huiliang (白慧良), aged 69, is our independent non-executive Director and was appointed to our Board on 7 October 2010. He has more than 30 years of experience in the industry of managing pharmaceutical products and drugs supervision and is familiar with the development of the pharmaceutical industry and was involved in the drafting and formulating the rules of drugs regulatory laws and regulations. Mr. Bai is currently the president of China OTC Association (中國非處方藥物協會會長) and the vice president of the enterprise management branch under the Chinese Medical Association (中國醫藥企業管理協會副會長).

Mr. Bai received a Graduate Certificate in Organic Synthesis from Beijing University of Technology in 1968. Between 1967 and 1997, Mr. Bai held the positions of technician and secretary in Factory No. 12 of Shenyang Northeast Pharmaceutical Main Factory Workshop (瀋陽東北製藥總廠十二車間), personnel director in State Pharmaceutical Administration and Production Association (國家醫藥管理總局生產調度局任人事司司長), deputy director in the Technical Department (技術幹部處副處), deputy director of Personnel Department and deputy director of Politics and Law Department of the State Pharmaceutical Administration (國家醫藥管理局任人事司副司長，政法司副司長) and chief engineer in China Xinxing Medical and Pharmaceutical Technology Development Corporation (中國新興醫藥科技發展總公司). Before Mr. Bai's retirement in March 2005, he served as the director of drug safety supervision division of State Food and Drug Administration (國家食品藥品監督管理局藥品安全監管司司長) where he was primarily responsible for national pharmaceutical research and production and supervision of special drugs. Since January 2010 and April 2010, Mr. Bai has acted as independent director of Shanghai Pharmaceuticals Holdings Co., Ltd. (上海醫藥集團股份有限公司) (listed on the Stock Exchange, Stock Code: 2607) and Gansu Duyiwei Biological Pharmaceutical Co., Ltd. (甘肅獨一味生物製藥股份有限公司) (listed on the Shenzhen Stock Exchange, Stock code: 002219) respectively. Mr. Bai has also acted as an independent non-executive director of Shangdong Xinhua Pharmaceutical Company Limited (listed on the Stock Exchange, Stock Code: 719).

Mr. Xu Kangsen (徐康森), aged 70, is our independent non-executive Director and was appointed to our Board on 7 October 2010. He has more than 40 years of experience in the industry of analysing and researching of the pharmaceutical and biological products and biochemical drugs. Mr. Xu received a Graduate Certificate in Biological Chemistry from Fudan University in 1965. Between 1965 and 2005, Mr. Xu worked as assistant researcher and researcher specialising in biological and pharmaceutical products and director of genetic engineering of pharmaceutical products branch at Ministry of Health, Pharmaceutical and Biological Products (衛生部藥品生物製品檢定所). From 2005 to 2007, Mr. Xu worked as researcher and deputy director of the research centre of State of Standardising Pharmaceutical and Biological Products (中國藥品生物製品標準化研究中心). Before Mr. Xu's retirement in January 2008, he served as deputy director and researcher at State of Standardising Pharmaceutical and Biological Products (中國藥品生物製品標準化研究中心).

Senior Management

Ms. Gu Jin (顧津), aged 43, the wife of Dr. Che, is our deputy general manager (administration and human resources). She joined our Group in 2001 as the head of the administration and human resources departments of our Group, overseeing various matters including recruitment of staff, staff remuneration, as well as staff training. Ms. Gu helps to ensure that our employees are well-trained and motivated to excel in their work. She graduated from the finance profession (金融專業專科畢業) of Lan Zhou Commerce College in the PRC in 1993 and completed an Executive Master in Business Administration advanced level course in the National Medicine and Medical Devices Industry from Peking University in 2006.

Ms. Jia Zhongxin (賈中新), aged 53, is our chief operating officer. Ms Jia joined our Group in 2007 and is a practising pharmacist and senior engineer. Ms. Jia received a Bachelor in Pharmacy in 1982 from the Medical Department of Peking University (formerly known as Beijing Medicine College, Beijing Medical University) and a Master in Business Administration from the University of South Australia in 2004. She had held various managerial positions in many companies. Between January 2006 and November 2007, Ms. Jia headed the biomedical department of China Baoan Group Co., Ltd. and was also chairman of Shenzhen Daphne Pharmaceutical Co., Ltd. Prior to that, she was the chief executive officer of Wuhan Ma Ying Long Pharmaceutical Co., Ltd. and chairman of Wuhan Ma Ying Long Chained Pharmacies Co., Ltd. from November 2002 to December 2005.

Mr. Choi Yiau Chong (蔡耀忠), aged 38, is our chief financial officer and one of the joint company secretaries. Mr. Choi joined our Group in 2006 and is responsible for overseeing and managing the accounting and finance functions of our Group. Prior to joining our Group, Mr. Choi gained his finance and accounting experience at Titan Petrolchemicals (M) Sdn. Bhd., a subsidiary of Titan Chemicals Corp. Bhd., a company listed on the main board of Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange) and at Deloitte and Touche. Mr. Choi received a Bachelor of Commerce (Accounting) from Nelson Polytechnic (now known as Nelson Marlborough Institute of Technology), New Zealand in 1997. He is a member of the Chartered Institute of Management Accountants (UK) and also a member of the Institute of Certified Public Accountants of Singapore.

Ms. Yuan Tingjun (袁廷均), aged 48, is our Vice President. Ms. Yuan joined our Group in 2003 and is responsible for overseeing the production and quality control function of our Group. Before joining our Group, she held various managerial and marketing positions in several pharmaceutical companies. She also had seven years of experience as a researcher during which she carried out research on Chinese medicines. Ms. Yuan received a Bachelor of Science (Chemistry) from Sichuan University in 1986 and a Master of Science from Sichuan University in 1989.

Dr. Huo Caixia (霍彩霞), aged 42, is the director of our R&D management center and general manager of Beijing Ao He Research Institute Co. ltd. ("Beijing Ao He Research"). Dr. Huo joined our Group in 2004 and is responsible for the registrations of pharmaceutical products and assists in overseeing the research and development functions of our Group. Between 2002 and 2004, she was an assistant researcher at the Chemistry Research Institution of the Chinese Academy of Sciences. Dr. Huo received a Bachelor of Science (Pharmacy) from Inner Mongolia Medical College in 1993, a Master of Science (Pharmaceutical Chemistry) from Inner Mongolia Medical College in 1998 and a Doctor of Science (Pharmaceutical Chemistry) from Peking University in 2002.

Mr. Lin Guotan (林國潭), aged 43, is our assistant to the chairman starting August 1, 2011. Mr. Lin joined our Group in 2005 and is in charge of improving and maintaining internal business communications, and assist the chairman to drive annual business plans. He started his career in the pharmaceutical industry in 1993 and joined our Group in 2005 as marketing director then promoted as general manager of Hainan Sihuan. He received a Bachelor of English from Luoyang Institute of Technology in 1993 and a Master of Business Administration from Tongji University in 2002.

Dr. Gao Jianhua (高建華), aged 55, is our chairman at Langfang Sihuan Gaobo and joined our Group in 2009. Dr. Gao has extensive experience in drug research, particularly pharmaceutical API and intermediates in chemical process. Dr. Gao received a Bachelor of Science (Pharmacy) from Shanghai First Medical College (now known as Fudan University) in 1982 and a Master of Medicine from the Academy of Military Medical Sciences in 1985. Dr. Gao received his PhD in Pharmacy from the Chinese Military Academy of Medical Sciences in the PRC (中國軍事醫學科學院) in 1988 and the University of North Carolina in the United States in 1994. From 1988 to 1990, Dr. Gao served as researcher in pharmacy in Chinese Military Academy of Medical Sciences (中國軍事醫學科學院六所). From 1990 to 1998, Dr. Gao was the deputy director and then was promoted to researcher at Beijing Sihuan (formerly known as Chinese Military Academy of Medical Sciences Sihuan Pharmaceutical Factory (軍科院六所四環製藥廠)). In the same year, Dr. Gao founded and acted as the Chairman of Beijing Gao Bo (北京高博醫藥化學技術開發有限公司).

Joint Company Secretaries

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

Ms. Ma Sau Kuen Gloria (馬秀絹), aged 53, is our joint company secretary. Ms. Ma is a director and head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Ms. Ma has over 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on the Stock Exchange of Hong Kong Limited, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma holds amaster degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member ofthe Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Corporate Governance Report

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

Code on Corporate Governance Practices

The Company had adopted the Code on Corporate Governance Practices (the "Corporate Governance Code") under Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and had complied with all the applicable code provisions of the Corporate Governance Code during the 2011, save and except for the deviation from code provision A.2.1 of the Corporate Governance Code with details set out below.

Board of Directors

The Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. Save for Dr. Che Fengsheng who is the Chairman and chief executive officer of the Company, there is no financial, business, family or other material relationship among the members of the Board. The biographical information of the members of the Board and their relationship are set out on pages 32 to 35 in the section headed "Biographical Details of Directors and Senior Management".

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

The Board convened four regular meetings and three extraordinary meetings during the Reporting Period. All Directors were sent a meeting notice, at least 14 days prior to such meeting, with the board meeting agenda. The views of independent non-executive Directors were actively solicited by the Company even if they were unable to attend the meetings of the Board. Minutes of the Board and the board committees are kept by duly appointed secretaries of the respective meetings. All Directors are provided with Board papers and related statistics on a timely manner, which enable the Board to make informed decisions on matters proposed. In addition, all Board members have regularly reviewed the business documents and information related to the Group.

All Directors are entitled to access to the advice and services of the joint company secretaries. The joint company secretaries of the Company are Mr. Choi Yiau Chong, who is also the Chief Financial Officer of the Company, and Ms. Ma Sau Kuen, Gloria. Ms. Ma is a director and head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. The primary corporate contact person of Ms. Ma at the Company is Mr. Choi Yiau Chong.

The attendance of each Director at the Board meetings, during the Reporting Period, is stated below:

Number of board meetings attended/held

Executive Directors	
Dr. Che Fengsheng *(Chairman and CEO)*	7/7
Dr. Guo Weicheng *(Deputy Chairman)*	7/7
Mr. Meng Xianhui *(Deputy General Manager)*	6/7
Non-executive Directors	
Dr. Zhang Jionglong	7/7
Mr. Homer Sun *(Note)*	2/4
Mr. Eddy Huang *(Note)*	3/4
Independent Non-executive Directors	
Mr. Patrick Sun	7/7
Mr. Bai Huiliang	6/7
Mr. Xu Kangsen	7/7

Note: Mr. Homer Sun and Mr. Eddy Huang retired as Directors on 3 June 2011 and appointed as Directors on 18 August 2011. During the period from 3 June 2011 to 18 August 2011, three meetings were held.

Chairman and Chief Executive Officer

The code provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman of the board (the "Chairman") and chief executive officer ("CEO") should be separate and should not be performed by the same individual, but the Company does not meet this requirement currently. Given the Group's current development under the circumstance, the Board considers that Dr. Che Fengsheng, as one of the main founders of the Company and possessing extensive medical and pharmaceutical industry knowledge together with unique strategic perspective is suitably qualified to lead the Company and formulate effective strategies to react promptly to market changes and new challenges. His continual service in both roles would be beneficial to the stable and healthy development of the Company. Dr. Che Fengsheng held the roles of both the Chairman and CEO of the Group, and his responsibilities are clearly set out in writing and approved by the Board. The Board will review the structure from time to time and will consider the appropriate adjustments when the circumstance is suitable.

Non-Executive Directors and Independent Non-Executive Directors

The Board currently has appointed three non-executive Directors and three independent non-executive Directors. One of the three independent non-executive Directors holds appropriate professional qualifications, or accounting or related financial management expertise set out in Rule 3.10 of the Listing Rules. Mr. Patrick Sun, Mr Bai Huiliang and Mr. Xu Kangsen, being the independent non-executive Directors and a non-executive Director, Dr. Zhang Jionglong have renewed the letter of appointment with the Company on 27 October 2011 for a term of one year commencing from 28 October 2011. Mr. Homer Sun and Mr. Eddy Huang, being the non-executive Directors, have entered into letters of appointment with the Company for a term of one year commencing from 18 August 2011. The non-executive Directors and independent non-executive Directors are subject to retirement by rotation or re-election in accordance with the Company's bye-laws. Each independent non-executive Director has submitted an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Group considers that all independent non-executive Directors are independent and meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

Appointment, Re-Election and Removal of Directors

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

All Directors (except Mr. Homer Sun and Mr. Eddy Huang) were retired and re-elected as Directors at the annual general meeting of the Company held on 3 June 2011 (the "Meeting"). Mr. Homer Sun and Mr. Eddy Huang did not offer themselves for re-election at the Meeting and retired on 3 June 2011. The Board appointed Mr. Homer Sun and Mr. Eddy Huang as non-executive Directors on 18 August 2011 and they were retired and re-elected as non-executive Directors at special general meeting of the Company held on 19 September 2011.

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

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

Audit Committee

The Company has established the audit committee (the "Audit Committee") in accordance with the requirements of the Corporate Governance Code as set up in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to assist the Board to provide an independent view on the effectiveness of the financial reporting procedures, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as by the Board. The Audit Committee consists of one non-executive Director (Dr. Zhang Jionglong) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy.

The Audit Committee had reviewed the Group's financial reporting matters and the internal control system in relation to finance and accounting and submitted improvement proposals to elaborate on the work performed by the Audit Committee to the Board.

During the Reporting Period, three meetings were held by the Audit Committee. During the past year, the Audit Committee had reviewed the Group's financial reporting matters, and reviewed the internal control system in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the audit committee are consistent with the provisions set out in the relevant sections of the Corporate Governance Code.

In addition, the Audit Committee had reviewed, discussed and approved the annual results for the year ended 31 December 2011 and the interim results for the period ended 30 June 2011. As at the date of this report, the Audit Committee also reviewed the auditor's remuneration for 2011 and recommended the Board to re-appoint PricewaterhouseCoopers as the Company's auditor in the year 2012, which is subject to the approval of shareholders at the forthcoming annual general meeting.

The attendance record of the committee members at the meetings during the Reporting Period was as follows:

Name of Directors	Attendance/ No. of Meetings held
Mr. Patrick Sun *(Chairman)*	3/3
Dr. Zhang Jionglong	3/3
Mr. Bai Huiliang	3/3
Mr. Xu Kangsen	3/3

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the nomination committee include, among others, reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors and making recommendation to the Board on matters relating to the appointment of Directors. The nomination committee consists of one executive Director (Dr. Guo Weicheng) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen). Dr. Guo Weicheng acted as the Chairman of the nomination committee for the period from 8 October 2010 to 19 March 2012 and Mr. Xu Kangsen has been appointed as the chairman of the nomination committee with effect from 19 March 2012. The terms of reference of the nomination committee are consistent with the provisions set out in the relevant sections of the Corporate Governance Code.

During the Reporting Period, two meetings were held by the nomination committee to consider the qualification and appointment of Mr. Homer Sun and Mr. Eddy Huang who were candidates for Directors and assess the independence of the independent non-executive Directors. The nomination committee, taking into consideration a candidate's skills, experience and knowledge, the requirements applicable to the Company and the structure and composition of the Board, identifies, reviews and nominates with diligence and care candidates suitably qualified as board members of the Company before making recommendations to the Board for their final appointment. For nomination and appointment of Mr. Homer Sun and Mr. Eddy Huang, these criteria and procedures have been applied.

The attendance record of the committee members at the meetings during the Reporting Period was as follows:

Name of Directors	Attendance/ No. of Meetings held
Dr. Guo Weicheng *(Chairman)*	2/2
Mr. Xu Kangsen	2/2
Mr. Bai Huiliang	2/2
Mr. Patrick Sun	2/2

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. The remuneration committee consists of an executive Director (Dr. Che Fengsheng) and three independent non-executive Directors, (Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen). Dr. Che Fengsheng acted as the chairman of the remuneration committee for the period from 8 October 2010 to 19 March 2012. Mr. Bai Huiliang has been appointed as the chairman of the remuneration committee with effect from 19 March 2012. The terms of reference of the remuneration committee are consistent with the provisions set out in the relevant sections of the Corporate Governance Code.

During the Reporting Period, two meetings were held by the remuneration committee, during which the resolutions regarding the remuneration of executive Directors and senior management of the Company in 2010 were discussed and approved and the remuneration policy for the executive Directors and senior management for 2011 and the letter of appointment of the proposed non-executive Directors, Mr. Homer Sun and Mr. Eddy Huang, were discussed and recommended to the Board.

The attendance record of the committee members at the meetings during the Reporting Period was as follows:

Name of Directors	**Attendance/ No. of Meetings held**
Dr. Che Fengsheng *(Chairman)*	2/2
Mr. Bai Huiliang	2/2
Mr. Xu Kangsen	2/2
Mr. Patrick Sun	2/2

Model Code for Securities Transactions by the Directors and Relevant Employees

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

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

Directors' Responsibility on the Consolidated Financial Statements

The Directors confirmed that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group for the financial year ended 31 December 2011.

A statement on reporting responsibility with respect to the external auditor of the Company is set out on pages 49 to 53 of this annual report.

Internal Control

The Board has the responsibility to ensure that a sound and effective internal control system is maintained within the Group. The Company and its subsidiaries have adopted internal control procedures and policies to safeguard the assets, to ensure proper maintenance of accounting records and to carry out a reliable financial reporting, and to guarantee compliance with the relevant laws and regulations. The Company has an Internal Audit team which conducts regular financial and operational reviews on the Group and reports its findings and control weaknesses, if any, to the Audit Committee. The annual work plan is reviewed and endorsed by the Audit Committee. The Internal Audit team monitors follow-up actions agreed upon in response to its recommendations. In addition, the Board conducts annually, with the assistance of the Audit Committee, a review of the effectiveness of the internal control system of the Group and had reviewed the effectiveness of the internal control system of the Group for the year ended 31 December 2011.

Communications with Shareholders and Investors

The Group had made remarkable improvements in investor relationship in 2011. The Group has participated in a number of institutional investor conferences and regularly communicated with many investors though various means. The Group also set to provide highest standard and financial transparency through the publication of annual and interim reports, results announcements, other announcements and circulars made through the Company's and Stock Exchange's websites.

During the year, the Company held an annual general meeting and a special general meeting on 3 June 2011 and 19 September 2011 respectively. The chairmen of the Board, the audit committee, the nomination committee and the remuneration committee were present at the aforesaid meetings to answer shareholder's questions.

During the period from 1 January 2011 to the date of this annual report, there has not been any change in the Company's memorandum of association and bye-laws.

Shareholders' Rights

The following procedures are subject to the bye-laws of the Company (the "Bye-laws"), the Bermuda Companies Act 1981 (the "Act") and applicable legislation and regulation.

Shareholders who have enquires about the following procedures or have enquires to put to the board of directors of the Company (the "Board") may write to the company secretary of the Company (the "Company Secretary") at Room 4905, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

A. Procedures for shareholders of the Company (the "Shareholders") to make proposals at general meeting other than a proposal of a person for election as a director of the Company (a "Director")

(1) Pursuant to Bye-laws 56 and 57, the Company holds an annual general meeting ("AGM") every year, and may hold a general meeting known as a special general meeting whenever necessary.

(2) Pursuant to section 79 of the Act, Shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all Shareholders having the right to vote at the general meeting; or (ii) not less than 100 Shareholders, can submit a written request stating the resolution intended to be moved at the AGM or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

(3) The written request/statements must be signed by the Shareholder(s) concerned and deposited at the Company's registered office at Clarendon House, Church Street, Hamilton, Bermuda HM11 and its principal office at Room 4905, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, for the attention of the Company Secretary, not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

(4) Pursuant to section 80 of the Act, if the written request is in order, the Company Secretary will ask the Board (i) to include the resolution in the agenda for the AGM; or (ii) to circulate the statement for the general meeting, provided that the Shareholder(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the Shareholder(s) concerned in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid or the Shareholder(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Shareholder(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM or the statement will not be circulated for the general meeting.

B. Procedures for a Shareholder to propose a person for election as a Director

(1) If a Shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment/election of Director(s), wishes to propose a person (other than the Shareholder himself/herself) for election as a Director at that meeting, he/she can deposit a written notice at the Company's registered office at Clarendon House, Church Street, Hamilton, Bermuda HM11 and its principal office at Room 4905, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, for the attention of the Company Secretary.

(2) In order for the Company to inform all Shareholders of that proposal, the written notice must state the full name of the person proposed for election as a director, his/her biographical details as required by rule 13.51(2) of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited, and be signed by the Shareholder concerned and that person indicating his/her willingness to be elected.

(3) The minimum length of the period, during which such written notice(s) may be given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

(4) If the notice is received less than fifteen (15) business days prior to that general meeting, the Company will need to consider adjournment of the general meeting in order to (i) assess the suitability of the proposed candidate; and (ii) publish an announcement or circulate a supplementary circular in relation to the proposal to the Shareholders at least fourteen (14) clear days and not less than ten (10) business days prior to the general meeting.

C. Procedures for Shareholders to convene special general meeting ("SGM")[2]

(1) Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, Church Street, Hamilton, Bermuda HM11 and its principal office at Room 4905, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, for the attention of the Board or the Company Secretary, to require a SGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

(2) The written requisition must state the purposes of the general meeting, signed by the Shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.

(3) If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

(4) The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the Shareholder(s) concerned at a SGM varies according to the nature of the proposal, as follows:

   i. at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and

   ii. at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

[2] These procedures are generally based on bye-law 58 and section 74 of the Act.

(5) If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of section 74(3) of the Act.

(6) In accordance with the provision of section 74(3) of the Act, if the Board does not within twenty-one (21) days from the date of deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three (3) months from the said date.

(7) Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to convene a meeting shall be repaid to the requisitionists by the Company, and any sum so repaid shall be retained by the Company out of any sums due or to become due from the Company by way of fees or other remuneration in respect of their services to such directors as were in default.

Auditor's Remuneration

For the year ended 31 December 2011, the auditor of the Group provided audit and non-audit services for the Group. The service fees for audit and non-audit services in 2011 amounted to RMB3,270,000 and RMB242,000 respectively.

Compliance of the Non-Competition Undertaking

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

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

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

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

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

Report of Directors

The Board is pleased to present the Directors' report together with the audited consolidated financial statements for the year ended 31 December 2011.

Principal Activities

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

Segment Information

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2011 is set out in Note 5 to the Financial Statements.

Results and Distributions

The Group's results for the year ended 31 December 2011 are set out in the Consolidated Statement of Comprehensive Income on page 54 of this annual report.

The payment for the interim dividend of RMB1.9 cents and the special dividend of RMB7.8 cents per ordinary share, totalling RMB501,977,000 was paid during 2011.

The Board proposed to distribute a final dividend of RMB2.5 cents and a second special dividend of RMB7.2 cents per ordinary share to all Shareholders whose names appear on the register of members of the Company on 13 June 2012, being the record date. Such proposal is subject to the consideration and approval of shareholders at the forthcoming annual general meeting to be held on 1 June 2012.

Financial Highlights

A summary of the Group's results and assets and liabilities for the last five financial years is set out on page 12 of this annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during this year are set out in Note 6 to the Financial Statements.

Share Capital

Details of movements in the share capital of the Company together with the reasons during the year and as at the date of this report are set out in Note 17 to the Financial Statements.

Borrowings

As at 31 December 2011, the Group has borrowing from Langfang Sihuan Gaobo's non-controlling shareholders amounting to RMB5,880,000.

Shares and Reserves

Details of movements in the shares and reserves of the Company during the year are set out in the Consolidated Statement of Changes in Equity and also in Notes 17 and 18 to the Financial Statements. As at the balance sheet date, the Company's reserves available for distribution to shareholders amounted to RMB1,173,679,000 (2010: RMB891,582,000).Other than the shares issued in relation to the Listing of the Company and as disclosed in the Prospectus, the Company had not issued any shares during the year.

Share Option Scheme

The Company has not implemented a share option scheme.

Employee Share Award Scheme

An award scheme for the purpose of incentivising the management of the Group (the "Employee Share Award Scheme") has been adopted by certain Shareholders of the Company (namely, Plenty Gold Enterprises Limited, Dr. Che Fengsheng and Dr. Guo Weicheng) on 25 October 2010 (the "Adoption Date"). Trustee Co (a private trust company established in the British Virgin Islands and wholly-owned by Plenty Gold Enterprises Limited) has been appointed as the trustee (the "Scheme Trustee") to hold the reserve shares under the Employee Share Award Scheme, and the Scheme Trustee will, upon receiving instructions from the remuneration committee of the Company, award to selected management personnel and employees of the Group (excluding Directors) (a "Grantee") the rights to acquire the Reserve Shares ("Awards") at a price to be determined by the remuneration committee of the Company. Plenty Gold Enterprises Limited, Dr. Che Fengsheng and Dr. Guo Weicheng, as settlors (the "Settlors") of a trust, has reserved and set aside a total of 33,750,000 Shares (or approximately 0.65%) of the total number of issued Shares, which are being held by Trustee Co as trustee for the Employee Share Award Scheme.

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

Pre-Emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

During the year, the Company repurchased its own 12,476,000 shares through the Stock Exchange for an aggregate consideration of approximately HK$42,290,000 after expenses pursuant to the Company's share repurchase mandate granted on 3 June 2011 as follows:

Date of repurchase	Price per share Highest HK$	Lowest HK$	Number of ordinary shares of HK $0.01 each	Total consideration HK$'000
12 July 2011	3.45	3.42	2,482,000	8,537.0
13 July 2011	3.29	3.28	957,000	3,151.7
19 July 2011	3.45	3.22	9,037,000	30,600.9

The repurchased shares were cancelled and accordingly, the issued share capital was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium of the Company. The repurchases were effected by the Board for the enhancement of shareholders' value in the long term.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Major Customers and Suppliers

In 2011, the aggregate sales attributable to the Group's largest customer and five largest customers were 17.8% and 35.6% respectively of the Group's sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers were 15.9% and 40.3% respectively of the Group's purchases for the year.

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

Connected Transactions

Details of the related-party transactions of the Group during the year ended 31 December 2011 are set out in Note 33 to the Financial Statements. These transactions constituted fully-exempt connected transactions under Chapter 14A of The Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the year ended 31 December 2011, the Group has not conducted any connected transaction or continuing connected transaction (as defined under the Listing Rules) which are subject to reporting and annual review requirements under the Listing Rules.

Use of Proceeds from the Global Offering

In October 2010, the Company allotted 1,437,500,000 ordinary shares at a price of HK$4.60 through international placing and public offer. Save as disclosed below, the net proceeds raised from such international placing and public offer, being approximately HK$6,365.7 million (equivalent to approximately RMB5,407.6 million), are used in accordance with the purposes disclosed in the prospectus of the Company dated 15 October 2010.

The Company announced the acquisition of the entire equity interest in Dupromise Holdings Limited on 25 November 2010, the acquisition of 80% equity interest in Changchun Xiangtong Pharmaceutical Co., Ltd. on 20 January 2011 and the acquisition of the entire equity interest in Smart Baskets Investments Limited on 22 June 2011. Considerations for such acquisitions are payable in installments in accordance with the terms of the respective agreements. The Company changed the use of an amount of approximately RMB736.6 million, RMB492.4 million and RMB500.5 million of the proceeds from the international placing and public offer designated for acquisition of products, enhancement of sales and distribution efforts and working capital, respectively, to settle the consideration for such acquisitions.

In addition, in line with the Company's strategies to expand and enhance its production capacity and capability as disclosed in the prospectus, the Company changed the use of an amount of approximately RMB260.0 million and RMB40.3 million of the proceeds from the international placing and public offer designated for funding the construction of our new production facilities construction in Beijing & Langfang and working capital, respectively, which remained unused to fund the capital expenditures required for the construction of production facilities in Jilin province and Liaoning province.

During the year ended 31 December 2011, approximately RMB2,502.6 million raised from the global offering of the Company was used for the purposes and approximately in the amounts set out below:

- approximately RMB101.5 million was used for our product development and research;
- approximately RMB18.9 million was used for the development of our existing products;
- approximately RMB72.8 million was used for acquisition of products;
- approximately RMB67.4 million was used for funding the construction of our two new production facilities located in Beijing and Langfang;
- approximately RMB101.8 million was used for funding the construction of production facilities in Jilin province and Liaoning province;
- approximately RMB2,091.8 million was used for mergers and acquisitions; and
- approximately RMB48.4 million was used for enhancement of our sales and distribution efforts.

Approximately RMB2,903.8 million raised from the international placing and public offer of the Company remained unused as at 31 December 2011, which is deposited in the special bank account of the Company.

Directors

The Directors of the Company during the year ended 31 December 2011 and up to the date of this report were as follows:

Executive Directors

Dr. Che Fengsheng *(Chairman and CEO)*

Dr. Guo Weicheng *(Deputy Chairman)*

Mr. Meng Xianhui *(Deputy General Manager)*

Non-executive Directors

Dr. Zhang Jionglong

Mr. Homer Sun

Mr. Eddy Huang

Independent non-executive Directors

Mr. Patrick Sun

Mr. Bai Huiliang

Mr. Xu Kangsen

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

Dr. Guo Weicheng, Dr. Zhang Jionglong and Mr. Bai Huiliang shall retire by rotation and being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

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

Such executive Director shall abstain from voting, and not be counted in the quorum, in respect of any resolution of our Board approving the determination of the salary, bonus and other benefits payable to him.

Dr. Zhang Jionglong, being the non-executive Director, renewed his letter of appointment with the Company on 27 October 2011, for a term of one year commencing from 28 October 2011 and both Mr. Homer Sun and Mr. Eddy Huang, being the non-executive Directors, entered into letters of appointment with the Company on 18 August 2011 for a term of one year commencing from 18 August 2011. The non-executive Directors will not receive any remuneration from the Company.

Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen, being the independent non-executive Directors renewed their respective letters of appointment with the Company on 27 October 2011 for a term of one year commencing from 28 October 2011. The annual fee for Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen are HK$300,000, RMB240,000 and RMB240,000 respectively.

Saved as disclosed in this annual report, none of the Directors standing for re-election at the forthcoming Annual General Meeting ("AGM") has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

Management Contracts

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

Directors' Interests In Competing Business And Contracts

During 2011, no Directors or their respective associates (as defined in the Listing Rules are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Furthermore, save as disclosed in the section headed "Connected Transactions" above, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2011, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

(i) Directors' interests in Shares

Name of Director	Nature of Interest/Capacity	Total Number of Shares	Approximate percentage of Shareholding
Dr. Che Fengsheng *(Note 1)*	Interest in a controlled corporation 2,964,131,019 Shares Settlor of a trust 33,750,000 Shares *(Note 2)*	2,997,881,019 (Long position)	57.93%
Dr. Guo Weicheng *(Note 3)*	Settlor of a trust	117,900,000 (Long position)	2.28%
Mr. Meng Xianhui *(Note 3)*	Interest in a controlled corporation *(Note 4)*	56,590,000 (Long Position)	1.09%
Dr. Zhang Jionglong *(Note 3)*	Interest in a controlled corporation *(Note 5)*	99,220,000 (Long Position)	1.92%

Notes:

(1) Under sections 317 and 318 of the SFO, Dr. Che Fengsheng is deemed to be interested in 460,702,857 Shares.

(2) Dr. Che Fengsheng is the beneficial owner of 51% of the issued share capital of Plenty Gold Enterprises Limited ("Plenty Gold") as well as one of the settlors of the trust for which Sihuan Management (PTC) Limited ("Trustee Co") is a trustee, and is deemed to be interested in the 2,747,297,019 Shares held by Plenty Gold in the Company. Since Plenty Gold is the sole shareholder of Trustee Co and that Dr. Che Fengsheng is one of the settlors of the trust assets (being Shares in the Company) held by Trustee Co, he is also deemed to be interested in the 33,750,000 Shares held by Trustee Co. Dr. Che Fengsheng is the beneficial owner of the entire issued share capital of Network Victory Limited and is deemed to be interested in the 216,834,000 Shares held by Network Victory Limited.

(3) Under sections 317 and 318 of the SFO, each of Dr. Guo Weicheng, Mr. Meng Xianhui and Dr. Zhang Jionglong is deemed to be interested in 3,458,583,876 Shares.

(4) Mr. Meng Xianhui is the beneficial owner of the entire issued share capital of Smart Top Overseas Limited and is deemed to be interested in the 56,590,000 Shares held by Smart Top Overseas Limited.

(5) Dr. Zhang Jionglong is the beneficial owner of the entire issued share capital of Keen Mate Limited and is deemed to be interested in the 99,220,000 Shares held by Keen Mate Limited.

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

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

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

Directors' Right to Acquire Shares or Debentures

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

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2011, the following shareholders, other than the Directors or chief executive of the Company, which were recorded in the register required to be kept by the Company under Section 336 of the SFO, had interests of 5% or more (including short positions) in the issued share capital, underlying shares or debentures of the Company:

Name of Shareholder	**Nature of Interest/Capacity**	**Total Number of Shares** *(Note 5)*	**Approximate percentage of Shareholding**
Plenty Gold *(Note 1)*	Beneficial owner 2,747,297,019 Shares Settler of a trust 33,750,000 Shares	2,781,047,019 (L)	53.74%
Mr. Huang Zhenhua *(Note 2)*	Interest in a controlled corporation *(Note 3)*	92,702,981 (L)	1.79%
MSPEA Pharma Holdings B.V. *(Note 4)*	Beneficial owner	375,000,000 (L)	7.25%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd *(Note 4)*	Interest in a controlled corporation	375,000,000 (L)	7.25%
Morgan Stanley Private Equity Asia III, Inc. *(Note 4)*	Interest in a controlled corporation	375,000,000 (L)	7.25%
Morgan Stanley Private Equity Asia III, L.L.C *(Note 4)*	Interest in a controlled corporation	375,000,000 (L)	7.25%
Morgan Stanley Private Equity Asia III, L.P. *(Note 4)*	Interest in a controlled corporation	375,000,000 (L)	7.25%
MSPEA III Holdings Cooperatief U.A. *(Note 4)*	Interest in a controlled corporation	375,000,000 (L)	7.25%

Notes:

(1) Plenty Gold directly holds 2,747,297,019 Shares in the Company. It is also the sole shareholder of Trustee Co which holds 33,750,000 Shares in the Company and is deemed to be interested in the 33,750,000 Shares held by Trustee Co.

(2) Under sections 317 and 318 of the SFO, Mr. Huang Zhenhua is deemed to be interested in 3,458,583,876 Shares.

(3) Mr. Huang Zhenhua is the beneficial owner of the entire issued share capital of Taurus TC Holdings Limited and is deemed to be interested in the 92,702,981 Shares held by Taurus TC Holdings Limited.

(4) MSPEA Pharma Holdings B.V. ("MSPEA Pharma BV") is a private limited liability company established under Dutch law which is wholly-owned by MSPEA III Holdings Cooperatief U.A. ("MSPEA III Coop"). MSPEA III Coop is a cooperative established under Dutch law and is wholly-owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited ("MSPEA III Cayman"). MSPEA III Cayman is an exempted company incorporated in the Cayman Islands with limited liability and is controlled by Morgan Stanley Private

Equity Asia III, L.P. ("MSPEA III"), a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA III is Morgan Stanley Private Equity Asia III, L.L.C. ("MSPEA III GP"), the managing member of which is Morgan Stanley Private Equity Asia III, Inc. ("MSPEA III Inc.") an investment advisor registered with the U.S. Securities and Exchange Commission. Each of MSPEA III Coop, MSPEA III Cayman, MSPEA III, MSPEA III GP and MSPEA III Inc. is deemed to be interested in the Shares held by MSPEA Pharma BV.

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

Save as disclosed above, according to the records in the register required to be kept by the Company under section 336 of the SFO, no other parties had an interest or a short position in the Shares or underlying shares of the Company recorded under section 336 of the SFO as at 31 December 2011.

Corporate Governance

The Company is dedicated to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 36 to 43 of this Annual Report.

Public Float

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

Auditor

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

Closure of Register of Members for AGM

The AGM will be held on 1 June 2012. The register of members of the Company will be closed from 28 May 2012 to 1 June 2012 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on 25 May 2012.

Closure of the Register of Members for the Entitlement of Final Dividend and Special Dividend

The register of members of the Company will be closed from 7 June 2012 to 13 June 2012 (both dates inclusive). In order to qualify for the final dividend and second special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on 6 June 2012. The final dividend and second special dividend are subject to the approval of shareholders at the AGM, will be payable on 22 June 2012 to shareholders on the register of members of the Company on 13 June 2012.

By Order of the Board
Che Fengsheng
Chairman of the Board

19 March 2012

pwc

羅兵咸永道

Independent Auditor's Report
To the shareholders of Sihuan Pharmaceutical Holdings Group Ltd.
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sihuan Pharmaceutical Holdings Group Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 104, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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羅兵咸永道

Independent Auditor's Report
To the shareholders of Sihuan Pharmaceutical Holdings Group Ltd. (continued)
(Incorporated in Bermuda with limited liability)

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 International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 March 2012

Consolidated Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	6	**419,258**	253,153
Investment properties	7	**6,834**	—
Intangible assets	8	**3,080,147**	153,469
Land use rights	9	**88,912**	17,714
Held-to-maturity financial assets	11	**17,917**	36,252
Deferred income tax assets	20	**69,483**	41,020
Other non-current assets	13	**97,668**	236,199
		3,780,219	737,807
Current assets			
Inventories	14	**57,653**	53,346
Trade and other receivables	15	**718,795**	259,920
Available-for-sale financial assets	12	**780,135**	—
Held-to-maturity financial assets	11	**18,318**	—
Cash and cash equivalents	16	**3,153,154**	5,851,379
		4,728,055	6,164,645
Assets of disposal group classified as held for sale	32	**345,824**	—
		5,073,879	6,164,645
Total assets		**8,854,098**	6,902,452
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	17	**44,419**	44,526
Share premium	17	**5,573,951**	5,608,947
Other reserves	18	**153,485**	111,876
Retained earnings			
— Proposed final and special dividends	28	**501,978**	—
— Others		**671,701**	891,582
		6,945,534	6,656,931
Non-controlling interests		**48,409**	2,598
Total equity		**6,993,943**	6,659,529

Consolidated Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	20	**113,133**	9,526
Borrowings	21	**5,880**	—
		119,013	9,526
Current liabilities			
Trade and other payables	19	**1,540,292**	138,907
Current income tax liabilities		**109,039**	94,490
		1,649,331	233,397
Liabilities of disposal group classified as held for sale	32	**91,811**	—
		1,741,142	233,397
Total liabilities		**1,860,155**	242,923
Total equity and liabilities		**8,854,098**	6,902,452
Net current assets		**3,332,737**	5,931,248
Total assets less current liabilities		**7,112,956**	6,669,055

The notes on pages 57 to 104 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 104 were approved by the Board of Directors on 19 March 2012 and were signed on its behalf.

Che Feng Sheng
Director

Guo Weicheng
Director

Balance Sheet

		As at 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**14**	20
Investments in subsidiaries	10	**208,617**	208,617
Held-to-maturity financial assets	11	**17,917**	36,252
		226,548	244,889
Current assets			
Held-to-maturity financial assets	11	**18,318**	—
Trade and other receivables	15	**3,042,762**	410,976
Cash and cash equivalents	16	**2,856,393**	5,015,417
		5,917,473	5,426,393
Total assets		**6,144,021**	5,671,282
EQUITY			
Share capital	17	**44,419**	44,526
Share premium	17	**5,573,951**	5,608,947
Retain earnings/(accumulated losses)			
— Proposed final and special dividends	28	**501,978**	—
— Others		**751**	(17,067)
Total equity		**6,121,099**	5,636,406
LIABILITIES			
Current liabilities			
Trade and other payables	19	**22,922**	34,876
Total liabilities		**22,922**	34,876
Total equity and liabilities		**6,144,021**	5,671,282
Net current assets		**5,894,551**	5,391,517
Total assets less current liabilities		**6,121,099**	5,636,406

The notes on pages 57 to 104 are an integral part of these financial statements.

The financial statements on pages 51 to 104 were approved by the Board of Directors on 19 March 2012 and were signed on its behalf.

Che Feng Sheng
Director

Guo Weicheng
Director

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	22	**2,242,063**	1,036,881
Cost of sales	23	**(527,599)**	(292,138)
Gross profit		**1,714,464**	744,743
Other gains — net	22	**108,542**	54,052
Distribution costs	23	**(631,568)**	(56,654)
Administrative expenses	23	**(201,090)**	(128,828)
Operating profit		**990,348**	613,313
Finance income	25	**56,367**	23,629
Finance costs	25	**(1,859)**	(1,859)
Finance income — net		**54,508**	21,770
Profit before income tax		**1,044,856**	635,083
Income tax expense	26	**(244,823)**	(128,175)
Profit for the year		**800,033**	506,908
Profit attributable to:			
Owners of the Company		**824,048**	522,065
Non-controlling interests		**(24,015)**	(15,157)
		800,033	506,908
Earnings per share attributable to owners of the Company during the year			
Basic and diluted earnings per share (RMB cents)	27	**15.90**	13.03
Other comprehensive income:			
Change in value of available-for-sale financial assets	12	**1,635**	—
Total comprehensive income for the year		**801,668**	506,908
Total comprehensive income attributable to:			
Owners of the Company		**825,683**	522,065
Non-controlling interests		**(24,015)**	(15,157)
		801,668	506,908
Dividends	28	**227,701**	173,939

The notes on pages 57 to 104 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company						
		Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2010		**69,262**	**182,909**	**109,585**	**545,747**	**907,503**	**16,684**	**924,187**
Comprehensive income								
Profit for the year		—	—	—	522,065	522,065	(15,157)	506,908
Total comprehensive income		**69,262**	**182,909**	**109,585**	**1,067,812**	**1,429,568**	**1,527**	**1,431,095**
Total contribution by and distributions to owners of the Company recognized directly in equity								
Conversion of shares	17	(65,212)	65,212	—	—	—	—	—
Capitalization of share premium	17	28,262	(28,262)	—	—	—	—	—
Issuance of new ordinary shares	17	12,214	5,606,259	—	—	5,618,473	—	5,618,473
Listing expenses	17	—	(217,171)	—	—	(217,171)	—	(217,171)
Dividends	28	—	—	—	(173,939)	(173,939)	—	(173,939)
Transfer to PRC statuary reserve fund	18	—	—	2,291	(2,291)	—	—	—
Total contributions by and distributions to owners of the Company		**(24,736)**	**5,426,038**	**2,291**	**(176,230)**	**5,227,363**	**—**	**5,227,363**
Non-controlling interests arising on business combination		—	—	—	—	—	1,071	1,071
Total transaction with owners		**(24,736)**	**5,426,038**	**2,291**	**(176,230)**	**5,227,363**	**1,071**	**5,228,434**
Balance as at 31 December 2010		**44,526**	**5,608,947**	**111,876**	**891,582**	**6,656,931**	**2,598**	**6,659,529**
Comprehensive income								
Profit for the year		—	—	—	824,048	824,048	(24,015)	800,033
Other comprehensive income								
Available-for-sale financial assets	12	—	—	1,635	—	1,635	—	1,635
Total other comprehensive income, net of tax		—	—	1,635	—	1,635	—	1,635
Total comprehensive income		**—**	**—**	**1,635**	**824,048**	**825,683**	**(24,015)**	**801,668**
Total contribution by and distributions to owners of the Company recognized directly in equity								
Contribution from non-controlling interest		—	—	—	—	—	300	300
Repurchase and cancellation of shares	17	(107)	(34,996)	—	—	(35,103)	—	(35,103)
Dividends	28	—	—	—	(501,977)	(501,977)	—	(501,977)
Transfer to PRC statuary reserve fund	18	—	—	40,974	(40,974)	—	—	—
Total contributions by and distributions to owners of the Company		**(107)**	**(34,996)**	**40,974**	**(542,951)**	**(537,080)**	**300**	**(536,780)**
Non-controlling interests arising on business combination	31	—	—	—	—	—	20,866	20,866
Non-controlling interests arising on partial disposal of a subsidiary	32	—	—	—	—	—	48,660	48,660
Disposal of a subsidiary		—	—	(1,000)	1,000	—	—	—
Total transaction with owners		**(107)**	**(34,996)**	**39,974**	**(541,951)**	**(537,080)**	**69,826**	**(467,254)**
Balance as at 31 December 2011		**44,419**	**5,573,951**	**153,485**	**1,173,679**	**6,945,534**	**48,409**	**6,993,943**

The notes on pages 57 to 104 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	29	**927,960**	516,000
Income tax paid		**(215,026)**	(135,899)
Net cash generated from operating activities		**712,934**	380,101
Cash flows from investing activities			
Proceeds from disposal of an associated company		**—**	32,000
Acquisition of subsidiaries, net of cash acquired	31	**(1,874,247)**	19
Proceeds from partial disposal of a subsidiary	32	**100,000**	—
Proceeds from disposal of property, plant and equipment	29(a)	**—**	54
Purchase of available-for-sale financial assets	12	**(778,500)**	—
Purchase of held-to-maturity financial assets	11	**—**	(36,254)
Purchase of property, plant and equipment	6	**(114,526)**	(107,774)
Purchase of intangible assets	8	**(97,467)**	(35,078)
Payment for purchase of land use rights	9	**(49,245)**	—
Prepayment for purchase of land use rights	13	**(97,668)**	—
Prepayment for acquisition of subsidiaries	13	**—**	(236,199)
Disposal of a subsidiary, net of cash disposed of	29(b)	**(4,887)**	—
Interest received		**53,828**	19,550
Net cash used in investing activities		**(2,862,712)**	(363,682)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net of listing expenses		**—**	5,396,040
Repurchase and cancellation of shares	17	**(35,103)**	—
Repayment of borrowings		**(17,079)**	—
Proceeds from borrowings	21	**5,880**	—
Dividends paid	28	**(501,977)**	(173,939)
Interest paid		**(168)**	—
Net cash (used in)/generated from financing activities		**(548,447)**	5,222,101
Net (decrease)/increase in cash and cash equivalents		**(2,698,225)**	5,238,520
Cash and cash equivalents at beginning of year		**5,851,379**	612,859
Cash and cash equivalents at end of year	16	**3,153,154**	5,851,379

The notes on pages 57 to 104 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

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

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

These financial statements are presented in units of Renminbi ("RMB") thousand Yuan, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 19 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

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

(i) The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011.

- International Accounting Standards ("IAS") 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party.

  This revised standard does not have a material impact on the Group.

- Amendment to IAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This amendment is currently not relevant to the Group as it has not made any rights issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(i) (continued)

- Amendment to IFRIC — Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This amendment is currently not relevant to the Group as it does not have such minimum funding requirement.

- IFRIC — Int 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This interpretation is currently not relevant to the Group as it currently has no extinguishment of financial liabilities with equity instruments.

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

The Group's and the Company's assessment of the impact of these new and amended standards is set out below.

- IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 11 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances (continued)

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

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

(c) Group companies

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

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

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

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

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.6 Investment properties

Investment properties, comprising office buildings, are held for long-term rental yields and/or for capital appreciation.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 20 years. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Research and development

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(b) Research and development (continued)

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

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

(iv) Amortisation of deferred development costs is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of 5 to 15 years.

(c) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 5 to 10 years.

(d) Computer systems

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

(e) Contractual customer relationships

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

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

2.8 Land use rights

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

2.9 Impairment of non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Disposal group held-for-sale

Disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.11 Financial assets

2.11.1 Classification

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

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

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.14 and 2.15).

(c) Held-to-maturity financial assets

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

(d) Available-for-sale financial assets

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

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity financial assets, loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Impairment of financial assets

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

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

(a) Assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Inventories

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

2.14 Trade and other receivables

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

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

2.15 Cash and cash equivalents

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

2.16 Share capital

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

2.17 Trade payables

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

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

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income or directly in equity.

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) Pension obligations

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

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.20 Government grants

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

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

(b) Sales of services

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

(c) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

(d) Interest income

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

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.23 Dividend distribution

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

2.24 Borrowings

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

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The functional currency of the Company and its subsidiaries is RMB. All of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are mainly denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The main foreign currency denominated assets and liabilities of the Group were certain cash and cash equivalents (Note 16), other receivables and other payables which were denominated in Singapore Dollars ("SGD"), United States Dollars ("USD") and Hong Kong Dollars ("HKD"). In the opinion of the directors, the Group does not have significant exposure to foreign exchange risk.

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

As at 31 December 2011, if the currency had weakened/strengthened by 10% against USD with all other variables held constant, post-tax profit for the year ended 31 December 2011 would have been approximately RMB19,998,000 (2010: RMB932,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash and cash equivalents, other receivables and other payables.

As at 31 December 2011, if the currency had weakened/strengthened by 10% against HKD with all other variables held constant, post-tax profit for the year ended 31 December 2011 would have been approximately RMB279,000 (2010: RMB15,972,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated cash and cash equivalents, other receivables and other payables.

As at 31 December 2011, if the currency had weakened/strengthened by 10% against SGD with all other variables held constant, post-tax profit for the year ended 31 December 2011 would have been approximately RMB86,000 (2010: RMB686,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of SGD-denominated cash and cash equivalents and other receivables.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The interest-bearing assets of the group mainly include the held-to-maturity financial assets and the available-for sale financial assets, details of which have been disclosed in Note 11 and Note 12.

The Group's interest rate risk arises from borrowings, details of which have been disclosed in Note 21. All the borrowings issued at variable rates expose the Group to cash flow interest rate risk. During 2011, the Group's borrowings at variable rate were denominated in RMB.

The directors are of the opinion the interest rate risk is not material as at 31 December 2011.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

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

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

Available-for-sale financial assets are short-term investments placed in PRC state-owned banks. There was no recent history of default and the directors are of the opinion that the credit risk related to the investment is low.

Held-to-maturity financial assets are RMB straight bonds placed with PRC state-owned financial institutes. There was no recent history of default and the directors are of the opinion that the credit risk to the investment is low.

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

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

(c) Liquidity risk

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

The Group had net current assets of RMB3,332,737,000 which included cash and cash equivalents of RMB3,153,154,000 as at 31 December 2011. The directors are of the opinion that the Group maintains an adequate liquidity reserve.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
Group			
At 31 December 2011			
Trade and other payables	**1,378,591**	**–**	**–**
Borrowings	**367**	**406**	**6,723**
At 31 December 2010			
Trade and other payables	102,114	—	—
Company			
At 31 December 2011			
Trade and other payables	**22,922**	**–**	**–**
At 31 December 2010			
Trade and other payables	34,876	—	—

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group has sufficient cash as at 31 December 2011 and 2010. The directors are of the opinion that the Group does not have significant capital risk.

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Cash and cash equivalents (Note 16)	**3,153,154**	5,851,379
Less: Borrowings (Note 21)	**(5,880)**	—
	3,147,274	5,851,379

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's assets that are measured at fair value at 31 December 2011.

	Level 2	
	2011	2010
	RMB'000	RMB'000
Available-for-sale financial assets	**780,135**	—

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Deferred development costs and product development in progress

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

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

If the estimated future cash flows had been 10% lower than management's estimates as at 31 December 2011 and 2010, the Group would have recognised no impairment loss on the development costs (2010:RMB173,000) and no need to reduce the carrying value of development costs (2010:RMB173,000).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Goodwill impairment test

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

The carrying amounts of goodwill as at 31 December 2011 were RMB2,608,845,000 (2010: RMB15,933,000). Details of the estimates used to calculate the recoverable amounts are disclosed in Note 8.

If the estimated future cash flows had been 10% lower than management's estimates as at 31 December 2011 and 2010, the Group would have recognised no impairment loss on the goodwill (2010: nil) and no need to reduce the carrying value of goodwill (2010: nil).

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

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

(d) Deferred taxation

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different. Details of the deferred taxation are disclosed in Note 20.

(e) Held-to-maturity financial assets

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would, therefore, be measured at fair value not amortised cost.

(f) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

5. SEGMENT INFORMATION

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

The board of directors considers the business from product perspective. The Group is engaged in only one business segment, the manufacturing and sale of pharmaceutical products in the PRC.

6. PROPERTY, PLANT AND EQUIPMENT — THE GROUP

	Buildings	Production and electronic equipment	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010						
Cost	123,681	30,631	6,220	11,194	37,753	209,479
Accumulated depreciation	(30,719)	(11,434)	(2,286)	(3,004)	—	(47,443)
Net book amount	92,962	19,197	3,934	8,190	37,753	162,036
Year ended 31 December 2010						
Opening net book amount	92,962	19,197	3,934	8,190	37,753	162,036
Acquisition of a subsidiary	—	10	—	—	—	10
Additions	4,861	21,149	1,627	2,447	77,690	107,774
Transfers	37,139	927	—	—	(38,066)	—
Disposals	—	(149)	—	(45)	—	(194)
Depreciation charge	(8,611)	(5,079)	(1,015)	(1,768)	—	(16,473)
Closing net book amount	126,351	36,055	4,546	8,824	77,377	253,153
At 31 December 2010						
Cost	165,681	52,252	7,847	13,551	77,377	316,708
Accumulated depreciation	(39,330)	(16,197)	(3,301)	(4,727)	—	(63,555)
Net book amount	126,351	36,055	4,546	8,824	77,377	253,153
Year ended 31 December 2011						
Opening net book amount	**126,351**	**36,055**	**4,546**	**8,824**	**77,377**	**253,153**
Transfer to investment properties (Note 7)	**(3,438)**	**—**	**—**	**—**	**—**	**(3,438)**
Acquisition of subsidiaries (Note 31)	**95,072**	**33,248**	**587**	**1,024**	**—**	**129,931**
Additions	**67,201**	**25,955**	**2,508**	**5,521**	**13,341**	**114,526**
Reclassification	**18,825**	**6,895**	**—**	**—**	**(25,720)**	**—**
Disposals	**—**	**(460)**	**—**	**—**	**—**	**(460)**
Disposal of a subsidiary	**—**	**—**	**(87)**	**(104)**	**—**	**(191)**
Transfer to disposal group classified as held for sale (Note 32)	**(24,091)**	**(16,165)**	**(248)**	**(953)**	**—**	**(41,457)**
Depreciation charge	**(14,658)**	**(13,646)**	**(1,665)**	**(2,837)**	**—**	**(32,806)**
Closing net book amount	**265,262**	**71,882**	**5,641**	**11,475**	**64,998**	**419,258**
At 31 December 2011						
Cost	**337,415**	**131,653**	**11,174**	**19,432**	**64,998**	**564,672**
Accumulated depreciation	**(72,153)**	**(59,771)**	**(5,533)**	**(7,957)**	**—**	**(145,414)**
Net book amount	**265,262**	**71,882**	**5,641**	**11,475**	**64,998**	**419,258**

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

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cost of sales	**9,566**	3,966
Distribution costs	**178**	47
Administrative expenses	**23,062**	12,460
	32,806	16,473

As at 31 December 2011, buildings and motor vehicles with net book values of approximately RMB94,046,000 (2010: RMB23,436,000) have no property title certificates. The directors of the Group are of the opinion that the Group is lawfully and validly entitled to occupy or use these properties.

7. INVESTMENT PROPERTIES — THE GROUP

At Cost	**RMB'000**
At 1 January 2011	
Opening net book amount	—
Acquisition of subsidiaries (Note 31)	3,826
Transfer from property, plant and equipment (Note 6)	3,438
Depreciation	(430)
At 31 December 2011	6,834
At 31 December 2011	
Cost	**9,122**
Accumulated depreciation	**(2,288)**
Net book amount	**6,834**

The Group's property interest held under operating leases for the purpose of earning rentals is measured using the cost model and accounted for as investment property. The investment property is located in the PRC.

The Group obtains independent valuations from Haikou Haiping Assets Appraisal Firm and Changchun Zhongpeng Assets Appraisa Ltd. for its investment properties at least annually. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The fair value of the Group's investment property of approximately RMB9,445,000 as at 31 December 2011 (2010: nil) has been determined by the directors of the Group with reference to the valuation performed by independent qualified professional valuers.

7. INVESTMENT PROPERTIES — THE GROUP (continued)

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Rental income	**555**	—

(b) Leasing arrangements

Some of the investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows.

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within one year	**519**	—

The Group's interests in investment properties at their net book values are analysed as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
In PRC, held on:		
Leases within 50 years	**6,834**	—

8. INTANGIBLE ASSETS — THE GROUP

	Goodwill RMB'000	Customer relationship RMB'000	Deferred development costs RMB'000	Product development in progress RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010						
Cost	49,107	28,000	75,594	145,768	2,253	300,722
Accumulated amortisation	–	(12,600)	(45,773)	–	(892)	(59,265)
Impairment	(35,117)	–	(1,063)	(67,816)	–	(103,996)
Net book amount	13,990	15,400	28,758	77,952	1,361	137,461
Year ended 31 December 2010						
Opening net book amount	13,990	15,400	28,758	77,952	1,361	137,461
Acquisition of subsidiaries	1,943	–	–	–	–	1,943
Additions	–	–	10,500	23,938	640	35,078
Transfer	–	–	3,000	(3,000)	–	–
Impairment charge	–	–	–	(2,571)	–	(2,571)
Amortisation charge	–	(5,600)	(12,568)	–	(274)	(18,442)
Closing net book amount	15,933	9,800	29,690	96,319	1,727	153,469
At 31 December 2010						
Cost	51,050	28,000	89,094	166,706	2,893	337,743
Accumulated amortisation	–	(18,200)	(58,341)	–	(1,166)	(77,707)
Impairment	(35,117)	–	(1,063)	(70,387)	–	(106,567)
Net book amount	15,933	9,800	29,690	96,319	1,727	153,469
Year ended 31 December 2011						
Opening net book amount	**15,933**	**9,800**	**29,690**	**96,319**	**1,727**	**153,469**
Acquisition of subsidiaries (Note 31)	**2,695,305**	**26,941**	**546,140**	**–**	**19,225**	**3,287,611**
Additions	**–**	**–**	**74,492**	**22,919**	**56**	**97,467**
Disposal of a subsidiary (Note (c)(i))	**(1,860)**	**–**	**–**	**–**	**–**	**(1,860)**
Partial disposal of a subsidiary (Note 32)	**(98,590)**	**–**	**–**	**–**	**–**	**(98,590)**
Transfer	**–**	**–**	**5,000**	**(5,000)**	**–**	**–**
Written off	**–**	**–**	**–**	**(4,551)**	**–**	**(4,551)**
Transfer to disposal group classified as held for sale (Note 32)	**–**	**–**	**(291,857)**	**–**	**–**	**(291,857)**
Impairment charge	**(1,943)**	**–**	**–**	**(39)**	**–**	**(1,982)**
Amortisation charge	**–**	**(9,170)**	**(47,600)**	**–**	**(2,790)**	**(59,560)**
Closing net book amount	**2,608,845**	**27,571**	**315,865**	**109,648**	**18,218**	**3,080,147**
At 31 December 2011						
Cost	**2,645,905**	**54,941**	**425,815**	**178,804**	**22,173**	**3,327,638**
Accumulated amortisation	**–**	**(27,370)**	**(108,887)**	**–**	**(3,955)**	**(140,212)**
Impairment	**(37,060)**	**–**	**(1,063)**	**(69,156)**	**–**	**(107,279)**
Net book amount	**2,608,845**	**27,571**	**315,865**	**109,648**	**18,218**	**3,080,147**

8. INTANGIBLE ASSETS — THE GROUP (continued)

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

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cost of sales	**47,600**	12,568
Administrative expenses	**11,960**	5,874
	59,560	18,442

(c) Goodwill is allocated to the Group's cash-generating units ("CGUs"). A summary of the goodwill is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Beijing Sihuan Pharmaceutical Co., Ltd. ("Beijing Sihuan")	**294**	294
Shenzhen Sihuan Pharmaceutical Co., Ltd. ("Shenzhen Sihuan") and Hainan Ao He Pharmaceutical Co. Ltd ("Hainan Ao He") (Note (i))	**11,836**	13,696
Dupromise Holdings Limited ("Dupromise") and its subsidiary	**2,126,800**	—
Smart Baskets Investment Limited ("Smart Baskets") and its subsidiaries	**381,909**	—
Changchun Xiangtong Pharmaceutical Co., Ltd. ("Changchun Xiangtong")	**57,136**	—
Benxi Hengkang Pharmaceutical Co., Ltd. ("Benxi Hengkang")	**30,870**	—
Beijing Gao Duan Wei Ye Pharmaceutical Technical Co., Ltd. ("Gao Duan Wei Ye") (Note (ii))	**—**	1,943
	2,608,845	15,933

(i) The Group disposed of 100% equity interest of Hainan Ao He at a cash consideration of RMB4,800,000 and the related goodwill of RMB1,860,000 was disposed (Note 29(b)).

(ii) Gao Duan Wei Ye was engaged in development of overseas collaboration opportunities. It was acquired by the Group in June 2010. The carrying amount of its net assets has been reduced to its recoverable amount through recognition of an impairment loss against goodwill as at 31 December 2011. The loss has been included in "other gains — net" in the statement of comprehensive income.

8. INTANGIBLE ASSETS — THE GROUP (continued)

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

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

	Shenzhen Sihuan and Hainan Ao He	Beijing Sihuan	Gao Duan Wei Ye	Dupromise and its subsidiary	Changchun Xiangtong	Smart Baskets and its subsidiaries	Benxi Hengkang
As at 31 December 2010							
Revenue growth rate	32%	37%	20%	–	–	–	–
Gross profit margin	37%	12%	23%	–	–	–	–
Discount rate	15%	15%	15%	–	–	–	–
As at 31 December 2011							
Revenue growth rate	**6%**	**6%**	**NA**	**9%**	**2%**	**10%**	**9%**
Gross profit margin	**15%**	**25%**	**NA**	**97%**	**65%**	**60%**	**80%**
Discount rate	**15%**	**15%**	**NA**	**14%**	**12%**	**15%**	**15%**

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

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

9. LAND USE RIGHTS — THE GROUP

	RMB'000
At 1 January 2010	
Cost	22,320
Accumulated amortisation	(3,477)
Net book amount	18,843
Year ended 31 December 2010	
Opening net book amount	18,843
Amortisation charge	(1,129)
Closing net book amount	17,714
At 31 December 2010	
Cost	22,320
Accumulated amortisation	(4,606)
Net book amount	17,714
Year ended 31 December 2011	
Opening net book amount	**17,714**
Additions	**49,245**
Acquisition of subsidiaries (Note 31)	**24,469**
Amortisation charge	**(2,516)**
Closing net book amount	**88,912**
At 31 December 2011	
Cost	**97,651**
Accumulated amortisation	**(8,739)**
Net book amount	**88,912**

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

As at 31 December 2011, land use rights with net book values of approximately RMB15,666,000 (2010: nil), have no property title certificates. The directors of the Group are of the opinion that the Group is lawfully and validly entitled to occupy or use these land.

10. INVESTMENTS IN SUBSIDIARIES — THE COMPANY

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**208,617**	208,617

10. INVESTMENTS IN SUBSIDIARIES — THE COMPANY (continued)

The following is a list of the principal subsidiaries at 31 December 2011, all of which are limited liability companies.

Name	Principal activities and place of operation	Place of incorporation and kind of legal entity	Issued/registered capital	Interest held (%)
Directly held				
耀忠國際（香港）有限公司 Sun Moral International (HK) Limited ("Sun Moral")	Investment holding in Hong Kong	Hong Kong	HK$10,000	100
Indirectly held				
海南四環醫藥有限公司 Hainan Sihuan Pharmaceutical Co., Ltd. ("Hainan Sihuan")	Marketing of pharmaceutical products in PRC	PRC, limited liability company	RMB200,000,000	100
北京四環製藥有限公司 Beijing Sihuan	Manufacturing of pharmaceutical products in PRC	PRC, limited liability company	RMB30,353,000	100
海南四環醫藥信息有限公司 Hainan Sihuan Pharmaceutical Information Co., Ltd. ("Hainan Sihuan Information")	Provision of information support services in PRC	PRC, limited liability company	RMB1,000,000	100
海南四環醫藥科技有限公司 Hainan Sihuan Technology Pharmaceutical Co., Ltd. ("Hainan Sihuan Technolgy")	Cooperation of projects with other research companies in PRC	PRC, limited liability company	RMB1,000,000	100
海南四環心腦血管藥物研究院 Hainan Sihuan Cardiocerebral Vascular Drugs Research Institute Co., Ltd. ("Hainan Sihuan CVD Research")	Provision of research and development services in PRC	PRC, limited liability company	RMB6,000,000	100
深圳四環醫藥有限公司 Shenzhen Sihuan	Marketing of pharmaceutical products in PRC	PRC, limited liability company	RMB3,000,000	100
山東軒竹醫藥科技有限公司 KBP BioSciences Pharmaceutical Technical Co., Ltd. ("KBP BioSciences")	Research and development of pharmaceutical products in PRC	PRC, limited liability company	RMB50,000,000	60
廊坊四環高博製藥有限公司 Langfang Sihuan Gaobo Pharmaceutical Co., Ltd. ("Langfang Sihuan Gaobo")	Manufacturing of pharmaceutical materials in PRC	PRC, limited liability company	RMB30,000,000	51
北京地澳林醫藥有限公司 Beijing Di Ao Lin Pharmaceutical Technical Co., Ltd. ("Beijing Di Ao Lin")	Registration and application of products in PRC	PRC, limited liability company	RMB3,000,000	60
北京澳合藥物研究院有限公司 Beijing Ao He Research Institute Co., Ltd. ("Beijing Ao He Research")	Provision of research and development services in PRC	PRC, limited liability company	RMB3,600,000	100
北京高端偉業醫藥科技有限公司 Gao Duan Wei Ye	Cooperation with other research companies in PRC	PRC, limited liability company	RMB5,000,000	60
多菲控股有限公司 Dupromise	Investment holding in PRC	BVI	USD1	100
吉林四環製藥有限公司 Jilin Sihuan Pharmaceutical Co., Ltd. ("Jilin Sihuan")	Manufacturing of pharmaceutical products in PRC	PRC, limited liability company	RMB50,000,000	100
長春翔通藥業有限公司 Changchun Xiangtong	Manufacturing of pharmaceutical products in PRC	PRC, limited liability company	RMB16,880,000	80
通化四環醫藥有限公司 Tonghua Sihuan Pharmaceutical Co., Ltd. ("Tonghua Sihuan")	Marketing of pharmaceutical products in PRC	PRC, limited liability company	RMB12,000,000	100
西馬巴斯特投資有限公司 Smart Baskets	Investment holding in PRC	BVI	USD1	100
吉林四長製藥有限公司 Jilin Sichang Pharmaceutical Co., Ltd. ("Jilin Sichang")	Manufacturing of pharmaceutical products in PRC	PRC, limited liability company	RMB28,800,000	81
海南李茲曼製藥有限公司 Hainan Litzman Pharmaceutical Co., Ltd. ("Hainan Litzman")	Project preparation for manufacturing of pharmaceutical products in PRC	PRC, limited liability company	RMB19,500,000	100

10. INVESTMENTS IN SUBSIDIARIES — THE COMPANY (continued)

Name	Principal activities and place of operation	Place of incorporation and kind of legal entity	Issued/registered capital	Interest held (%)
梅河口本草農副產品加工有限公司 Meihekou Herbal Primary Product Processing Co., Ltd. ("Meihekou Herbal")	Project preparation for manufacturing of pharmaceutical products in PRC	PRC, limited liability company	RMB200,000	100
本溪恒康製藥有限公司 Benxi Hengkang	Manufacturing of pharmaceutical products in PRC	PRC, limited liability company	RMB21,500,000	100

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

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

	2011 RMB'000	2010 RMB'000
Unlisted financial bonds:		
— Bonds with fixed interest of 2.70% and maturity date of 11 November 2013	**17,917**	17,925
— Bonds with fixed interest of 1.95% and maturity date of 2 December 2012	**18,318**	18,327
	36,235	36,252

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

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

	2011 RMB'000	2010 RMB'000
At 1 January	**36,252**	—
Additions	**—**	36,254
Interest received per coupon interest rate	**(839)**	(97)
Amortized by effective interest rate (Note 22)	**822**	95
At 31 December	**36,235**	36,252
Less: non-current portion	**(17,917)**	(36,252)
Current portion	**18,318**	—

The Group has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2010: nil).

There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2011 and 2010, as all the financial assets will be disposed of at their redemption date.

The fair value of held-to-maturity financial assets is based on quoted market bid prices (2011: RMB36,377,000; 2010: RMB36,254,000).

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS — THE GROUP

	Group As at 31 December	
	2011	2010
	RMB'000	RMB'000
At 1 January	**—**	—
Additions	**778,500**	—
Fair value gain recognised in other comprehensive income	**1,635**	—
At 31 December	**780,135**	—

Available-for-sale financial assets include the following:

	Group As at 31 December	
	2011	2010
	RMB'000	RMB'000
Short-term investments	**780,135**	—

The amount represents short-term investments placed in certain PRC state-owned banks with maturity within 6 months and non-determinable return rate. These investments are all denominated in RMB.

The fair values of these investments are based on estimated return rate of 6.59%.

The maximum exposure to credit risk at the reporting date is the carrying value of these investments.

None of these financial assets is either past due or impaired.

13. OTHER NON-CURRENT ASSETS — THE GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Other non-current assets	**97,668**	236,199

The amount represents prepayment for purchase of land use rights. Last year balance represented prepaid consideration for the acquisition of Benxi Hengkang, Dupromise and its subsidiary (Note 31).

14. INVENTORIES — THE GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials	**15,712**	23,278
Work in progress	**13,465**	6,932
Finished goods	**28,476**	23,136
	57,653	53,346

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB417,943,000 (2010: RMB260,627,000).

15. TRADE AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade receivables — third parties	**387,893**	27,763	**—**	—
Less: provision for impairment of trade receivables	**—**	—	**—**	—
Trade receivables — net	**387,893**	27,763	**—**	—
Prepayments to suppliers	**73,694**	105,880	**—**	—
Deposits and other receivables	**114,958**	126,277	**2,951**	6,220
Amount receivable from partial disposal of a subsidiary(a)	**142,250**	—	**—**	—
Amounts due from subsidiaries(b)	**—**	—	**1,985,400**	381,745
Dividend receivable	**—**	—	**1,054,411**	23,011
	718,795	259,920	**3,042,762**	410,976

(a) Amount receivable from partial disposal of a subsidiary represents the consideration not yet received relevant to the partial disposal (Note 32).

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

The fair values of trade and other receivables approximate their carrying amounts. The maximum exposure to the credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

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

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

	Group As at 31 December		Company As at 31 December	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
RMB	**714,793**	254,975	**3,042,762**	239,683
HKD	**4,002**	3,707	**—**	170,055
USD	**—**	1,209	**—**	1,209
SGD	**—**	25	**—**	25
CAD	**—**	4	**—**	4
	718,795	259,920	**3,042,762**	410,976

15. TRADE AND OTHER RECEIVABLES (continued)

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 3 months	**339,096**	27,438
3 to 6 months	**9,293**	122
6 months to 1 year	**39,248**	182
More than 1 year	**256**	21
	387,893	27,763

As at 31 December 2011, trade receivables of RMB38,734,000(2010: RMB325,000) were past due but not impaired. These relate to a number of independent wholesalers for whom there is no significant financial difficulty and based on past experience, the overdue amount can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
3 to 6 months	**30**	122
6 months to 1 year	**38,448**	182
More than 1 year	**256**	21
	38,734	325

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Group 1	**348,359**	27,438
Group 2	**800**	—
	349,159	27,438

- Group 1 — customers (less than 6 months) with no defaults in the past.
- Group 2 — customers (more than 6 months) with no defaults in the past.

As at 31 December 2011 and 2010, no trade receivables were impaired and no provision was made. The trade receivables are fully performing.

15. TRADE AND OTHER RECEIVABLES (continued)

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
At 1 January	**—**	138
Write-off	**—**	(138)
At 31 December	**—**	—

16. CASH AND CASH EQUIVALENTS

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand	**686**	97	**—**	—
Bank deposits (Note)	**3,152,468**	5,851,282	**2,856,393**	5,015,417
	3,153,154	5,851,379	**2,856,393**	5,015,417

Note

As at 31 December 2011, deposits of RMB1,439,000,000 (2010: RMB35,000,000) included in bank deposits are liquid investments with fixed return rate placed with a Hong Kong bank which have a maturity within 46 days (2010: 4 days). The effective annual interest rate of these term deposits as at 31 December 2011 was 2.04% (2010: 4.00%).

The effective annual interest rate of other bank deposits as at 31 December 2011 was 1.59% (2010: 1.61%).

Cash and cash equivalents are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**2,952,242**	5,663,309	**2,655,484**	4,998,718
USD	**200,000**	9,774	**200,000**	9,774
SGD	**864**	6,946	**863**	6,924
HKD	**48**	171,350	**46**	1
	3,153,154	5,851,379	**2,856,393**	5,015,417

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

	Number of authorised ordinary shares '000	Number of issued and fully paid ordinary shares '000	Share capital RMB'000	Share premium RMB'000	Total RMB'000
As at 1 January 2010 (US$0.02 per share)	600,000	470,000	69,262	182,909	252,171
Conversion of shares (a)	—	—	(65,212)	65,212	—
Increase in authorised ordinary shares (b)	9,400,000	—	—	—	—
Capitalisation of share premium (c)	—	3,280,000	28,262	(28,262)	—
Issuance of new ordinary shares (d)	—	1,437,500	12,214	5,606,259	5,618,473
Listing expenses (e)	—	—	—	(217,171)	(217,171)
As at 31 December 2010 (HK$0.01 per share)	10,000,000	5,187,500	44,526	5,608,947	5,653,473
As at 1 January 2011 (HK$0.01 per share)	**10,000,000**	**5,187,500**	**44,526**	**5,608,947**	**5,653,473**
Repurchase and cancellation of shares (f)	**—**	**(12,476)**	**(107)**	**(34,996)**	**(35,103)**
As at 31 December 2011 (HK$0.01 per share)	**10,000,000**	**5,175,024**	**44,419**	**5,573,951**	**5,618,370**

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

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

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

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

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

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

(f) In July 2011, the Company repurchased its ordinary shares totalling 12,476,000 shares at a range of HK$3.22 to HK$3.45 per share, with an aggregate consideration of HK$42,290,000 (approximately RMB35,103,000), including the relevant transaction expense of HK$151,000 (approximately RMB125,000). The difference between the par value of the ordinary shares and the aforesaid consideration, totally RMB34,996,000, is deducted against the share premium account of the Company. The repurchased shares were cancelled in July 2011 accordingly.

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

Group

	PRC statutory reserve fund RMB'000 (Note (a))	Other reserve Available-for-sale financial assets RMB'000	Total RMB'000	Retained earnings RMB'000
At 1 January 2010	109,585	—	109,585	545,747
Profit for the year	—	—	—	522,065
Interim dividend (Note 28)	—	—	—	(173,939)
Transfer to PRC statutory reserve fund	2,291	—	2,291	(2,291)
At 31 December 2010 and 1 January 2011	111,876	—	111,876	891,582
Profit for the year	—	—	—	824,048
Disposal of a subsidiary	(1,000)	—	(1,000)	1,000
Interim and special dividends (Note 28)	—	—	—	(501,977)
Fair value gain of available-for-sale financial assets	—	1,635	1,635	—
Transfer to PRC statutory reserve fund	40,974	—	40,974	(40,974)
At 31 December 2011	151,850	1,635	153,485	1,173,679

Company

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Retained earnings/(accumulated losses):		
At 1 January	**(17,067)**	(4,554)
Profit for the year	**1,021,773**	161,426
Dividends (Note 28)	**(501,977)**	(173,939)
At 31 December	**502,729**	(17,067)

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

19. TRADE AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade payables	**29,223**	31,261	**—**	—
Advances from customers	**66,701**	36,793	**—**	—
Value added tax payables	**30,253**	2,310	**—**	—
Accrued performance bonus to directors	**21,993**	24,350	**21,993**	24,350
Payables of listing expenses	**—**	9,021	**—**	9,021
Amount payable due to the acquisition of subsidiaries (Note 31)	**1,200,000**	—	**—**	—
Deferred gain on partial disposal of a subsidiary (Note 32)	**95,000**	—	**—**	—
Other payables	**97,122**	35,172	**929**	1,505
	1,540,292	138,907	**22,922**	34,876

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

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Within 6 months	**25,574**	29,315
6 months to 1 year	**1,252**	154
More than 1 year	**2,397**	1,792
	29,223	31,261

Amount payables due to the acquisition of subsidiaries represent the considerations not yet paid relevant to the acquisitions (Note 31) and were expected to be paid within 12 months.

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

	Group As at 31 December		Company As at 31 December	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
RMB	**1,539,621**	137,074	**22,491**	33,043
HKD	**641**	62	**401**	62
USD	**24**	1,661	**24**	1,661
SGD	**6**	110	**6**	110
	1,540,292	138,907	**22,922**	34,876

20. DEFERRED INCOME TAX — GROUP

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Deferred income tax assets		
— to be recovered within 1 year	69,483	41,020
Deferred income tax liabilities		
— to be settled within 1 year	(68,925)	(4,698)
— to be settled after 1 year	(44,208)	(4,828)
	(113,133)	(9,526)
Deferred income tax (liabilities)/assets — net	(43,650)	31,494

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
At 1 January	31,494	28,149
Acquisition of subsidiaries (Note 31)	(134,784)	—
Charged to income statement (Note 26)	(16,053)	(16,655)
Transfer to disposal group classified as held for sale (Note 32)	75,693	—
Payment of withholding tax	—	20,000
At 31 December	(43,650)	31,494

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

Deferred income tax assets

	Deferred gain on partial disposal of a subsidiary RMB'000	Unrealised profit of intra-group sales RMB'000	Total RMB'000
At 1 January 2010	—	58,144	58,144
Credited to income statement	—	(17,124)	(17,124)
At 31 December 2010	—	41,020	41,020
At 1 January 2011	—	41,020	41,020
Credited to income statement	23,678	4,785	28,463
At 31 December 2011	23,678	45,805	69,483

20. DEFERRED INCOME TAX — GROUP (continued)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. Due to the fact that the directors are not certain on whether future taxable profit would be available, the Group did not recognise deferred income tax assets of approximately RMB36,767,000 (2010: RMB16,899,000) in respect of tax losses amounting to RMB147,067,000 (2010: RMB67,595,000) as at 31 December 2011 that can be carried forward to offset against future taxable income. Losses amounting to RMB4,084,000, RMB2,116,000, RMB23,259,000,RMB38,136,000 and RMB79,472,000 will expire in 2012, 2013, 2014, 2015 and 2016 respectively.

Deferred income tax liabilities

	Fair value gain arising from acquisitions RMB'000	Withholding tax of the unremitted earnings of a PRC subsidiary RMB'000 (Note)	Total RMB'000
At 1 January 2010	9,965	20,030	29,995
(Credited)/charged to income statement	(2,469)	2,000	(469)
Payment of withholding tax	—	(20,000)	(20,000)
At 31 December 2010	7,496	2,030	9,526
At 1 January 2011	**7,496**	**2,030**	**9,526**
Acquisition of subsidiaries (Note 31)	**134,784**	**—**	**134,784**
Transfer to disposal group classified as held for sale (Note 32)	**(75,693)**	**—**	**(75,693)**
(Credited)/charged to income statement	**(10,084)**	**54,600**	**44,516**
At 31 December 2011	**56,503**	**56,630**	**113,133**

Pursuant to Detailed Implementation Regulations ("DIR") for implementation of the new Corporate Income Tax Law issued on 6 December 2007, a 10% withholding tax is levied on the dividends declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced to 5% from 10%. The withholding tax rate levied on the dividends declared by Hainan Sihuan to Sun Moral is 5% for the year ended 31 December 2011 (2010:10%).

As at 31 December 2011, the Group recognised relevant deferred tax liabilities of RMB56,630,000 (2010: RMB2,030,000), on the earnings anticipated to be remitted by a PRC subsidiary in the foreseeable future. No withholding tax has been provided for the earnings of approximately RMB630,401,000 (2010: RMB908,839,000) which are expected to be retained by the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future based on management's estimated requirement for funding outside the PRC.

21. BORROWINGS – THE GROUP

These amounts for the Group as at 31 December 2011 represent the borrowings from Langfang Sihuan Gaobo's non-controlling shareholders. The borrowings mature until 2015 and bear average interest rate of 6.9% annually.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Beijing Gao Bo Medicinal Chemistry Technology Co., Ltd.	**4,080**	—
Mr. Wang Fuping	**1,200**	—
Mr. Xiong Chuanhui	**600**	—
	5,880	—

At 31 December 2011, the Group's borrowings are repayable as follows:

	Other loans	
	2011	2010
	RMB'000	RMB'000
Between 2 and 5 years	**5,880**	—

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
6 months or less	**5,880**	—

The fair value of the borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.9% (2010: nil).

22. REVENUE AND OTHER GAINS – NET

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Revenue:		
Sales of pharmaceutical products	**2,242,063**	1,036,881
Other gains – net:		
Processing fee income	**1,374**	2,391
Government grants	**115,960**	50,970
Impairment of intangible assets (Note 8)	**(1,982)**	(2,571)
Loss on disposal of a subsidiary (Note 29)	**(1,829)**	—
Write-off of intangible assets (Note 8)	**(4,551)**	—
Gain on held-to-maturity financial assets (Note 11)	**822**	95
Others	**(1,252)**	3,167
	108,542	54,052

23. EXPENSES BY NATURE

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Research and development costs		
Research expenses	34,371	17,960
Amortisation of deferred development costs (Note 8)	47,600	12,568
	81,971	30,528
Marketing expenses	557,126	6,195
Raw materials used	406,070	265,604
Employee benefit expenses (Note 24)	95,578	65,317
Depreciation of property, plant and equipment (Note 6)	32,806	16,473
Office expenses	31,359	20,104
Professional services expense	25,872	8,062
Travelling expenses	20,288	16,269
Transportation expenses	15,399	7,553
Amortisation of intangible assets excluding the amortisation of deferred development costs (Note 8)	11,960	5,874
Changes in inventories of finished goods and work in progress	11,873	(4,977)
Entertainment expenses	4,317	3,802
Operating lease payments	3,805	2,366
Auditors' remuneration	3,270	2,100
Amortisation of land use rights (Note 9)	2,516	1,129
Depreciation of investment properties (Note 7)	430	—
Listing expenses (Note 17(e))	—	14,283
Others	55,617	16,938
Total cost of sales, distribution costs and administrative expenses	1,360,257	477,620

24. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS)

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Wages and salaries	84,931	60,117
Contribution to social insurance scheme	7,320	2,876
Staff welfare	3,327	2,324
	95,578	65,317

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

24. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS) (continued)

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2011 is set out below:

Name of Directors	Fees RMB'000	Salary RMB'000	Performance bonuses RMB'000	Social insurance scheme contribution RMB'000
Executive directors:				
Dr. Che Fengsheng	—	1,200	10,996	—
Dr. Guo Weicheng	—	600	6,598	—
Mr. Meng Xianhui	—	300	4,399	—
Non-executive directors:				
Dr. Zhang Jionglong	—	—	—	—
Mr. Homer Sun	—	—	—	—
Mr. Eddy Huang	—	—	—	—
Independent non-executive directors:				
Mr. Patrick Sun	249	—	—	—
Mr. Bai Huiliang	240	—	—	—
Mr. Xu Kangsen	240	—	—	—
	729	2,100	21,993	—

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

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

24. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS) (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2010: three) directors whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2010: two) individuals during the year are as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,830**	1,585
Bonuses	**—**	90
	1,830	1,675

The emoluments fell within the following bands:

	Year ended 31 December	
	2011	2010
Emolument bands		
Nil — HK$1,000,000	**—**	1
HK$1,000,001 — HK$1,500,000	**2**	1

For the years ended 31 December 2011 and 2010, no payments had been made by the Group to the directors or the highest paid individuals in respect of inducement to join or compensation for loss of office, and no directors or the highest paid individuals waived any of the emoluments.

25. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Exchange loss	**(1,110)**	(1,488)
Bank charges	**(175)**	(371)
Interest expense	**(574)**	—
Finance costs	**(1,859)**	(1,859)
Interest income	**56,367**	23,629
Finance income	**56,367**	23,629
Net finance income	**54,508**	21,770

26. INCOME TAX EXPENSE

(a) Bermuda profits tax

The Group has not been subject to any taxation in these jurisdictions during 2011 (2010: nil).

(b) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2011 (2010: nil).

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

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

With effect from 1 January 2008, the PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC ("new CIT Law"), as approved by the National People's Congress on 16 March 2007. According to the new CIT Law and the relevant regulations, the new corporate income tax rate applicable to the companies of the Group established in the "Hainan Special Economic Zone" and "Shenzhen Special Economic Zone" will be gradually changed to 25% over a five-year period from 2008 to 2012 and the applicable tax rate for the year ended 31 December 2011 is 24% (2010: 22%), while those established in other areas are subject to income tax rate at 25%.

Hainan Sihuan and Beijing Sihuan were qualified as high-tech enterprises and are entitled to a further reduction in tax rate. Accordingly, Hainan Sihuan's and Beijing Sihuan's corporate income tax for 2011 were provided at the rate of 15%.

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Current tax	**228,770**	92,986
Deferred tax (Note 20)	**16,053**	16,655
	244,823	109,641
Under-provision	**—**	18,534
Income tax expense	**244,823**	128,175

26. INCOME TAX EXPENSE (continued)

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

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before tax	**1,044,856**	635,083
Tax calculated at applicable tax rates for respective subsidiaries of the Group	**260,416**	149,056
Tax effects of:		
— Additional deductible allowance for research and development expenses	**–**	(1,200)
— Withholding tax on the earnings expected to be remitted by subsidiaries (Note 20)	**54,600**	2,000
— Effect of tax reduction and exemption	**(94,238)**	(51,020)
— Expenses not deductible for tax purposes	**4,083**	1,271
— Tax losses for which no deferred income tax asset was recognised	**19,962**	9,534
Tax charge	**244,823**	109,641
Under-provision	**–**	18,534
Income tax expense	**244,823**	128,175

The weighted average applicable tax rate was 24.9% (2010:23.5%). The increase was caused by a change in the profitability of the Group's subsidiaries subject to different applicable tax rates.

27. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issuance during the year including the ordinary shares repurchased by the Company in July 2011 (Note 17(f)).

	Year ended 31 December	
	2011	2010
Profit attributable to owners of the Company (RMB'000)	**824,048**	522,065
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	**5,181,797**	4,005,479
Basic earnings per share (RMB cents per share)	**15.90**	13.03

(b) Diluted

There is no dilution to earnings per share during 2011 and 2010 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share equal the basic earnings per share.

28. DIVIDENDS

The dividends paid in 2011 and 2010 were RMB501,977,000 and RMB173,939,000 respectively. Final dividend in respect of the year ended 31 December 2011 and special dividend of RMB129,376,000 and RMB372,602,000 respectively are to be proposed at the annual general meeting on 1 June 2012. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interim dividend paid of RMB37.0 cents per ordinary share before the initial public offering in October 2010	**—**	173,939
Interim dividend paid of RMB1.9 cents per ordinary share	**98,325**	—
Special dividend paid of RMB7.8 cents per ordinary share	**403,652**	—
	501,977	173,939
Proposed final dividend of RMB2.5 cents per ordinary share	**129,376**	—
Second proposed special dividend of RMB7.2 cents per ordinary share	**372,602**	—
	501,978	—

29. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	**1,044,856**	635,083
Adjustments for:		
— Depreciation of property, plant and equipment (Note 23)	**32,806**	16,473
— Depreciation of investment property (Note 23)	**430**	—
— Amortisation of intangible assets (Note 23)	**59,560**	18,442
— Impairment of intangible assets (Note 22)	**1,982**	2,571
— Write-off of intangible assets (Note 22)	**4,551**	—
— Amortisation of land use rights (Note 23)	**2,516**	1,129
— Listing expenses (Note 23)	**—**	14,283
— Loss on disposal of property, plant and equipment	**460**	140
— Loss on disposal of a subsidiary (Note (b))	**1,829**	—
— Gain on held-to-maturity financial assets (Note 22)	**(822)**	(95)
— Interest expense (Note 25)	**574**	—
— Interest income (Note 25)	**(56,367)**	(23,629)
Operating cash flow before working capital changes	**1,092,375**	664,397
Changes in operating assets and liabilities:		
— Inventories	**(1,202)**	(10,379)
— Trade and other receivables	**(203,503)**	(146,495)
— Trade and other payables	**40,290**	8,477
Cash generated from operating activities	**927,960**	516,000

29. CASH GENERATED FROM OPERATIONS (continued)

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net book amount (Note 6)	**460**	194
Loss on disposal of property, plant and equipment	**(460)**	(140)
Proceeds from disposal of property, plant and equipment	**–**	54

(b) In the consolidated statement of cash flows, net cash out flow from disposal of a subsidiary comprise:

	Year ended 31 December 2011 RMB'000
Cash and cash equivalents	**9,687**
Other current assets	**2,042**
Goodwill (Note 8)	**1,860**
Other non-current assets	**191**
Current liabilities	**(7,151)**
Net assets disposed	**6,629**
Loss on disposal of a subsidiary (Note 22)	**(1,829)**
Proceed from disposal of a subsidiary	**4,800**
Less: Cash and cash equivalents in the subsidiary disposed	**(9,687)**
Net cash outflow on disposal of a subsidiary	**(4,887)**

30. COMMITMENTS

Group

(a) Capital commitments

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**13,785**	3,212
Intangible assets — product development in progress	**21,118**	51,594
Acquisition of subsidiaries	**—**	2,200,000
	34,903	2,254,806

(b) Operating lease commitments

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
No later than 1 year	**1,413**	664
Later than 1 year and no later than 2 years	**821**	320
Later than 2 years	**780**	293
	3,014	1,277

Company

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

31. BUSINESS COMBINATION

For the year ended 31 December 2011, the Group acquired certain pharmaceutical businesses in the PRC. The detail information of the businesses acquired are summarised as follows:

Recognised amounts of identifiable assets acquired and liabilities assumed	Dupromise and its subsidiary (a)	Changchun Xiangtong (b)	Benxi Hengkang (c)	Smart Baskets and its subsidiaries (d)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	27,327	12,912	65	1,049	41,353
Property, plant and equipments (Note 6)	25,491	15,289	28,630	60,521	129,931
Land use rights (Note 9)	—	6,184	3,473	14,812	24,469
Investment properties (Note 7)	3,826	—	—	—	3,826
Trademarks (included in intangible assets) (Note 8)	—	19,225	—	—	19,225
Deferred development costs (included in intangible assets) (Note 8)	212,555	31,664	—	301,921	546,140
Contractual customer relationship (included in intangible assets) (Note 8)	—	26,941	—	—	26,941
Inventories	5,245	2,475	3,253	518	11,491
Trade and other receivables	30,392	17,263	59,964	7,992	115,611
Short term loans	—	—	(17,079)	—	(17,079)
Trade and other payables	(584)	(7,465)	(72,977)	(8,738)	(89,764)
Deferred tax liabilities (Note 20)	(31,052)	(20,158)	—	(83,574)	(134,784)
Total identifiable net assets	273,200	104,330	5,329	294,501	677,360
Non-controlling interest	—	(20,866)	—	—	(20,866)
Goodwill (Note 8)	2,126,800	57,136	30,870	480,499	2,695,305
Total consideration	2,400,000	140,600	36,199	775,000	3,351,799
Less: Cash and cash equivalents in the subsidiary acquired	(27,327)	(12,912)	(65)	(1,049)	(41,353)
Consideration payable (Note 19)	(1,140,000)	(10,000)	—	(50,000)	(1,200,000)
Consideration paid in 2010 (Note 13)	(200,000)	—	(36,199)	—	(236,199)
Net cash outflow on acquisition for the year ended 31 December 2011	1,032,673	117,688	(65)	723,951	1,874,247

(a) Acquisition of Dupromise and its subsidiary

On 1 January 2011, the Group acquired 100% of the share capital of Dupromise and its subsidiary, Jilin Sihuan (formerly known as Dupromise Pharmaceutical (China) Co., Ltd.). Pursuant to the share transfer agreement dated 24 November 2010, the total consideration is the lower of the 2011 audited net income of Dupromise and its subsidiary multiplied by 12 and RMB2,400,000,000. Based on the estimation by management, the audited net income of Dupromise and its subsidiary will exceed RMB200,000,000 and accordingly the expected final consideration is RMB2,400,000,000.

The goodwill of RMB2,126,800,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies through combining sales channel and obtaining economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

31. BUSINESS COMBINATION (continued)

(a) Acquisition of Dupromise and its subsidiary (continued)

The revenue included in the consolidated income statement since 1 January 2011 contributed by Jilin Sihuan was RMB763,398,000. Jilin Sihuan also contributed profit of RMB237,960,000 over the same period.

(b) Acquisition of Changchun Xiangtong

On 31 January 2011, The Group acquired 80% of the share capital of Changchun Xiangtong for a total cash consideration of RMB140,600,000 and obtained control of Changchun Xiangtong.

The goodwill of RMB57,136,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies through combining sales channel and obtaining economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

The revenue included in the consolidated income statement since 31 January 2011 contributed by Changchun Xiangtong was RMB62,359,000. Changchun Xiangtong also contributed profit of RMB21,868,000 over the same period.

Had Changchun Xiangtong been consolidated from 1 January 2011, the consolidated income statement would show revenue of RMB2,247,930,000 and profit of RMB800,908,000. These amounts have been calculated using the Group's accounting policies.

(c) Acquisition of Benxi Hengkang (formerly known as Benxi Leilong Pharmaceutical Co., Ltd.)

On 31 March 2011, the Group acquired 100% of the share capital of Benxi Hengkang for a total cash consideration of RMB36,199,000.

The goodwill of RMB30,870,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies through combining sales channel and obtaining economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

The revenue included in the consolidated income statement since 31 March 2011 contributed by Benxi Hengkang was RMB11,312,000. Benxi Hengkang also contributed loss of RMB6,139,000 over the same period.

Had Benxi Hengkang been consolidated from 1 January 2011, the consolidated income statement would show revenue of RMB2,243,468,000 and profit of RMB798,665,000. These amounts have been calculated using the Group's accounting policies.

(d) Acquisition of Smart Baskets and its subsidiaries

On 1 July 2011, the Group acquired 100% of the share capital of Smart baskets and its subsidiaries, including Jilin Sichang (formerly known as Vinise Pharmaceutical Ltd.) and Hainan Litzman for a total cash consideration of RMB775,000,000.

The goodwill of RMB480,499,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies through combining sales channel and obtaining economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

31. BUSINESS COMBINATION (continued)

(d) Acquisition of Smart Baskets and its subsidiaries (continued)

The revenue included in the consolidated income statement since 1 July 2011 contributed by Smart baskets and its subsidiaries was RMB3,918,000. Smart baskets and its subsidiaries also contributed loss of RMB2,132,000 over the same period.

Had Smart baskets and its subsidiaries been consolidated from 1 January 2011, the consolidated income statement would show revenue of RMB2,289,999,000 and profit of RMB801,418,000. These amounts have been calculated using the Group's accounting policies.

32. DISPOSAL GROUP HELD-FOR-SALE

The Group entered into an agreement in July 2011 with an independent third party, Shandong Buchang Pharmaceutical Co., Ltd. ("Shandong Buchang") (the "Agreement"). Pursuant to the Agreement, Shandong Buchang will conditionally purchase 50% equity interest in Jilin Sichang for a cash consideration of RMB637,500,000. The transfer of equity interest will be completed by 2 steps, which represent 19% and 31% equity interest of Jlin Sichang respectively. After completion of the 50% share transfer, Jilin Sichang will be jointly controlled by the Group and Shandong Buchang. In November 2011, 19% of equity interest of Jilin Sichang had been transferred at a cash consideration of RMB242,250,000, of which an amount of RMB100,000,000 have been received as of 31 December 2011. As at 31 December 2011, the Group owned 81% equity interest in Jilin Sichang. The resulting gain on this partial disposal is recognised as deferred gain and included in "trade and other payables". The assets and liabilities related to Jilin Sichang have been presented as held for sale. The initial accounting of acquisition of Jilin Sichang is provisional (Note 31) at the date of the report. If the final acquisition accounting is different from the provisional amount, the amounts recorded in assets held for sale, net assets disposed of and the resulting gain will be updated accordingly.

(a) The deferred gain arising on partial disposal is set out below:

	Year ended 31 December 2011 RMB'000
Net assets disposed of	**147,250**
Consideration from non-controlling interests	**(242,250)**
Deferred gain on partial disposal of a subsidiary (Note 19)	**(95,000)**

(b) Assets of disposal group classified as held for sale

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Property, plant and equipment	**41,457**	—
Intangible assets	**291,857**	—
Inventories	**3,765**	—
Other assets	**8,745**	—
Total	**345,824**	—

32. DISPOSAL GROUP HELD-FOR-SALE (continued)

(c) Liabilities of disposal group classified as held for sale

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade and other payables	**16,118**	—
Deferred income tax liabilities	**75,693**	—
Total	**91,811**	—

33. RELATED-PARTY TRANSACTIONS

Except for the information as disclosed in Note 19 (accrued performance bonus to directors), Note 21 (borrowings) and Note 24 (directors' and senior management's emoluments), the Group had no other material transactions with related parties for the year ended 31 December 2011 and 31 December 2010.

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