中國製藥集團有限公司
China Pharmaceutical
Group Limited
(Stock Code: 1093)

2011
Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman and CEO)*
FENG Zhenying
CHAK Kin Man
PAN Weidong
ZHAO John Huan
WANG Shunlong
WANG Huaiyu
LU Jianmin
WANG Zhenguo

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
HUO Zhenxing
QI Moujia
GUO Shichang
CHAN Siu Keung, Leonard

COMMITTEES

Audit Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

Remuneration Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

CHAK Kin Man
PAN Weidong

REGISTERED OFFICE

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China, Hebei Branch
Bank of China, Hohhot Branch
Bank of Communication, Hebei Branch
China Merchants Bank, Shenzhen Branch
China Minsheng Banking Corporation Limited, Shijiazhuang Branch
CITIC Bank International Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Hebei Banking Corporation Limited
Shanghai Pudong Development Bank, Shijiazhuang Branch
China CITIC Bank Corporation Limited, Shijiazhuang Branch

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

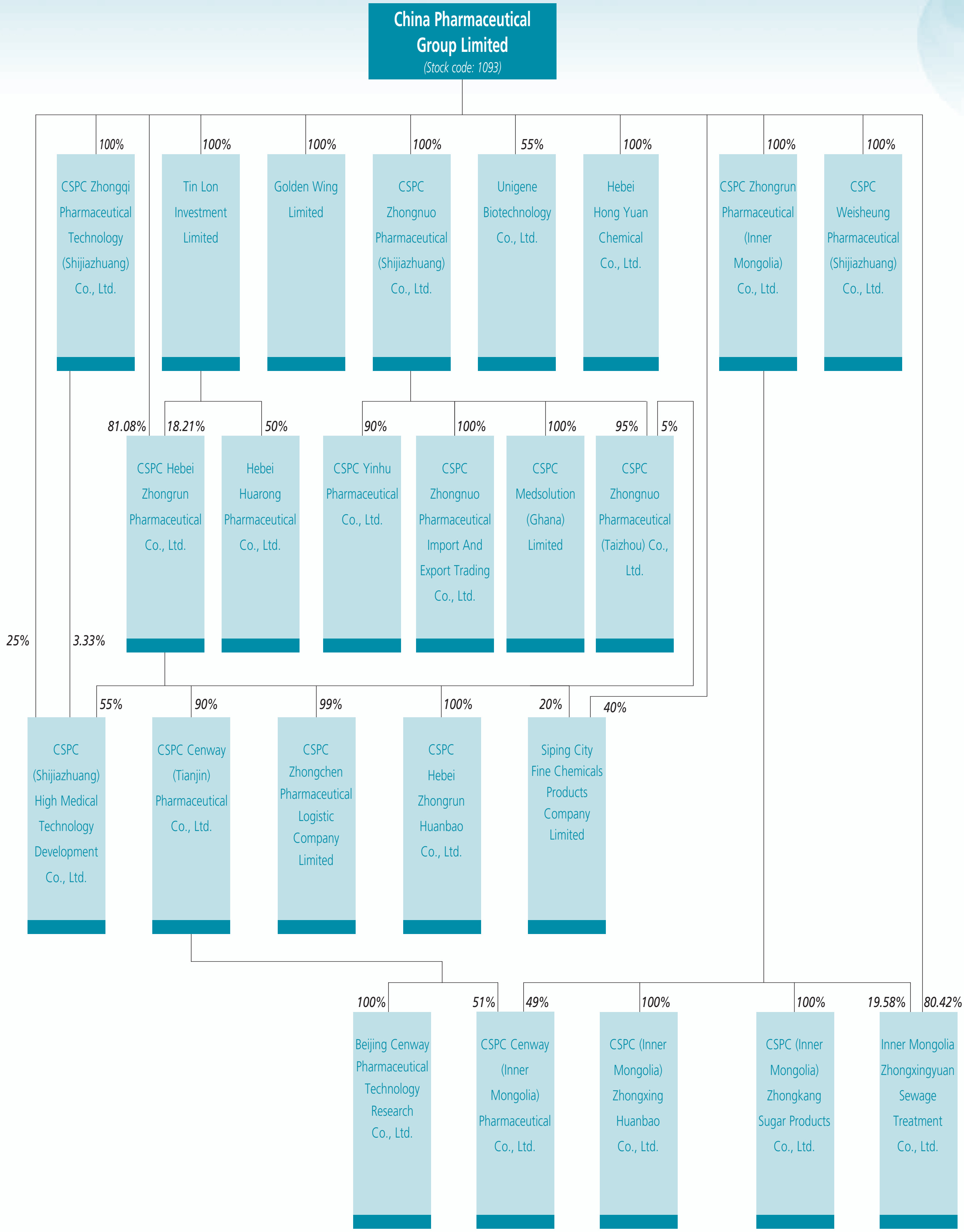
STOCK CODE

1093

WEBSITES

www.irasia.com/listco/hk/cpg
www.cpg.hk

Corporate Structure



Chairman's Statement

RESULTS

The overall business environment was very difficult in 2011. Affected by the decline in product prices and slowdown in sales, the Group's operating results dropped substantially. Compared with last year, revenue for the year decreased by 5.1% to HK$7,379 million and profit attributable to shareholders decreased by 69.0% to HK$233 million.

BUSINESS REVIEW AND OUTLOOK

Intermediates and Bulk Drugs Business

Vitamin C Series

With a substantial addition of production capacity in the market, the vitamin C market faced the severe challenge of excess supply and price decline in 2011. The average selling price of pure vitamin C powder has dropped by nearly 29% as compared with last year. Amid the fierce competition, apart from solidifying its existing market share, the Group also endeavoured to expand its customer base. Compared with last year, sales volume for the year managed to increase by 15%, while revenue decreased by 15.8% to HK$1,747 million.

It is expected that market supply will remain excessive, exerting great pressure on selling prices. Faced with this difficult operating environment, the Group will formulate strategies to minimize the adverse impact. The key initiatives in 2012 include: (i) obtaining international accreditation and expanding the business in worldwide high-end market; (ii) strengthening business relationship with existing customers and further developing new end-user customers; (iii) developing regional markets with market potential, including Eastern Europe, South America and Southeast Asia; and (iv) further enhancing product differentiation to meet the requirements of different customers, strengthening business relationship through customised service.

Antibiotics Series

In 2011, market competition and government policies have severely affected the antibiotic industry. Market demand weakened and product price showed a continued decline. The operating environment was particularly difficult in the second half of the year. During the year, the Chinese government promulgated the "Administrative Measures on the Clinical Use of Antibacterial drugs (Consultation Draft)", imposing a more stringent control on antibacterial drugs and regulating the volume used in hospitals. Following implementation of the new GMP in China, certain manufacturers expanded production capacity and modified production line at the same time. Besides, with the tender system orientated towards the lowest-price bidder, tender price and purchase volume of antibiotic drugs both dropped significantly. All these factors led to a slowdown in market demand for bulk drugs and a decline in product price, pessimistic sentiment prevailed in the market. Under this tough market environment, the Group devised various marketing strategies and made every effort to secure new customers in the domestic and overseas markets. Sales volume for the year managed to increase slightly as compared with last year whereas revenue decreased by 5.1% to HK$3,092 million.

Market competition is still expected to remain keen in 2012. Given that price level has been staying at a very low level for some time, it is expected that the market players, for the sake of survival and profitability, will make possible a slight rebound. The Group will continue to improve production technology, flexibly adjust marketing strategies according to market changes and reinforce product penetration in order to improve the performance of this business and expand its market presence.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Finished Drugs Business

Through effective marketing strategies and development of end-user markets, this business saw a relatively satisfactory growth in the first half of 2011. However, following the adoption of Anhui model (lowest-price bidding) in essential drug tenders across China and the promulgation of the "Administrative Measures on the Clinical Use of Antibacterial drugs (Consultation Draft)", market conditions aggravated in the second half of the year. Not only the tender prices of essential drug products fell significantly in every province, the volume used in the basic-tier medical institutions also reduced noticeably.

During 2011, satisfactory results were achieved from the Group's effort to expand sales to end-user customers by the establishment of new local offices in addition to its existing provincial offices. Under the tough market conditions of essential drugs, sales volumes of the Group's major products including amoxicillin capsules and ceftriaxone sodium injections remained stable or even recorded a slight growth, far surpassing other market players. Regarding non-essential drugs, sales volumes of products with high gross margin including meropenem injections and traditional Chinese medicine injections rose significantly through enhancing sales network and using of effective sales strategies. Notwithstanding the tough challenges, revenue of this business for the year increased by 6.4% to HK$2,423 million.

Looking forward to 2012, the overall essential drug market will continue to be under the shadow of the macro policies concerning tender system, drug price cut and regulation of the use of antibacterial drugs. However, being the most major type of drug among the anti-infective, antibiotics has been occupying a mainstream position in the market for its efficacy, low price level and wide application. With the natural growth and ageing of population, migration of people from rural to urban areas, improvement of the basic medical insurance system and promotion of essential drugs in China, overall usage of antibiotics will be able to maintain a growth momentum, though at a restrained growth rate. On the other hand, the implementation of new GMP will lead to a higher requirement for investment and product quality management. This will accelerate the phase-out of small and medium manufacturers and the market will be more concentrated in large enterprise as the Group.

In 2012, the Group will continue to devise new sales strategies, improve sales channels and develop end-user market. It will also step up its efforts in product registration and market development in the international market, striving to expand its export business. Regarding product portfolio, the Group will put more efforts in the sales of non-antibiotic products and speed up the development and launch of new products with a view to reducing its dependence on antibiotic products.

Outlook

As market conditions of all the operating units are expected to remain difficult, the overall operating results of the Group in 2012 will continue to be under pressure. The Group will adopt the operating strategies mentioned above and strive to alleviate the adverse impact of the market challenges. We are confident that we would be able to overcome these challenges and further consolidate our leading position in the market.

Chairman's Statement

FINANCIAL REVIEW

Liquidity and financial position

In 2011, the Group's operating activities generated a net cash inflow of HK$358,305,000. The Group used to grant a credit period of up to 90 days to customers. As the operating environment became unfavorable, the Group extended the credit period during the year in order to secure more sales. As a result, debtor turnover period (ratio of the total balance of trade and bills receivables to sales, inclusive of value added tax for sales in China) was lengthened in the current year, increasing from 81 days in last year to 87 days. As sales slowed down in the fourth quarter of the year, the inventory level was also higher at the end of the year. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 80 days in last year to 102 days. As at 31 December 2011, current ratio of the Group was 1.4, which was slightly lower than 1.8 a year ago. Capital expenditure in relation to the additions of production facilities amounted to HK$879,361,000 for the current year.

As at 31 December 2011, total bank balances and cash amounted to HK$1,066,649,000 and total borrowings amounted to HK$2,028,938,000. Out of the total borrowings, HK$880,880,000 will be repayable within one year and the remaining HK$1,148,058,000 repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total borrowings net of bank balances and cash over total equity) increased to 15.9%, as compared with 6.6% of last year.

42% of the Group's borrowings are denominated in Hong Kong dollars, 8% in US dollars and the remaining 50% in Renminbi. The Group's revenue is mainly denominated either in Renminbi or in US dollars. The Group has been monitoring closely the currency movement and will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary.

Contingent liabilities

The Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. Up to the date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Company and the subsidiary have appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

Further information on the antitrust complaints is set out in note 37 to the consolidated financial statements.

Chairman's Statement

EMPLOYEES

At the end of the reporting period, the Group had about 10,205 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our appreciation to our shareholders for their support and to our staff for their contribution and diligence for the year.

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 30 March 2012

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standards of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2011 with deviation from code provision A.2.1 as set out below.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine executive directors, one non-executive director and four independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 13 to 16 of this annual report.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2011. Individual attendance of each director at the regular board meetings and committee meetings in 2011 is set out below:

	Number of meetings attended/held		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors:			
Cai Dongchen *(Chairman and CEO)*	3/4		
Feng Zhenying	4/4		
Chak Kin Man	4/4		
Pan Weidong	4/4		
Zhao John Huan	2/4		
Wang Shunlong	4/4		
Wang Huaiyu	4/4		
Lu Jianmin	3/4		
Wang Zhenguo *(appointed on 20 January 2012)*	N/A		
Non-Executive Director:			
Lee Ka Sze, Carmelo	4/4	4/4	1/1
Independent Non-Executive Directors:			
Huo Zhenxing	4/4	4/4	1/1
Qi Moujia	4/4		
Guo Shichang	3/4		
Chan Siu Keung, Leonard	4/4	4/4	1/1

BOARD OF DIRECTORS *(continued)*

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of two years from 1 January 2011 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies, determining the remuneration packages for executive directors and recommending to the Board remuneration of non-executive directors. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

The remuneration of the directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market practices. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

The committee met once in 2011 to consider and approve the remuneration packages for executive directors of the Company.

NOMINATION OF DIRECTORS

The Board has not established a nomination committee during 2011. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board will review the structure, size and composition of the Board from time to time and make recommendation on the appointment of directors. There was no change in directorship during 2011.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2011.

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

Four meetings were held in 2011. At the meetings, the committee discussed and reviewed the following matters:

1. the 2010 annual results, annual report and results announcement;
2. the external auditor's report to the Audit Committee in respect of the 2010 annual audit;
3. the quarterly results for the three months ended 31 March 2011 and results announcement;
4. the 2011 interim results, interim report and results announcement;
5. the external auditor's report to the Audit Committee in respect of the 2011 interim review;
6. the quarterly results for the nine months ended 30 September 2011 and results announcement; and
7. the performance of the external auditor and its remuneration.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review has covered all material controls, including financial, operational and compliance controls and risk management functions. In addition, the review has considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function and their training programmes and budget. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$2,220,000 for audit services and HK$543,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and certain agreed-upon procedures.

Corporate Governance Report

FINANCIAL REPORTING

The directors' responsibilities for the financial statements and the external auditor's responsibility are set out on page 20 of this annual report.

COMMUNICATIONS WITH SHAREHOLDERS

The objective of communications with shareholder is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

At the 2011 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee and Remuneration Committee attended the 2011 annual general meeting to ensure effective communication with shareholders.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and jointly controlled entity are set out in notes 39 and 20 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 21 of the annual report.

The directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2011 comprised the retained profits of HK$299,712,000 (2010: HK$413,770,000).

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of HK$879,361,000 during the year. Details of these and movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and the share option scheme of the Company are set out in notes 30 and 31 to the consolidated financial statements, respectively.

Directors' Report

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cai Dongchen, *Chairman and Chief Executive Officer*

Feng Zhenying

Chak Kin Man

Pan Weidong

Zhao John Huan

Wang Shunlong

Wang Huaiyu

Lu Jianmin

Wang Zhenguo (appointed on 20 January 2012)

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing

Qi Moujia

Guo Shichang

Chan Siu Keung, Leonard

In accordance with Article 92 of the Company's Articles of Association, Mr. Wang Zhenguo retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Feng Zhenying, Zhao John Huan, Wang Shunlong, Lee Ka Sze, Carmelo and Qi Moujia retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 58, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. He is also a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry. Mr. Cai is a deputy of the 11th National People's Congress of the People's Republic of China (the "PRC").

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

FENG Zhenying

Mr. Feng, aged 56, was appointed as an executive director of the Company in 2003. He is also a director of certain subsidiaries of the Group. He graduated from Hebei Chemical College and has extensive technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 46, was appointed as an executive director of the Company in 2005. He is also a director of certain subsidiaries of the Group. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance and accounting.

PAN Weidong

Mr. Pan, aged 42, was appointed as an executive director of the Company in 2006. He is also a director of certain subsidiaries of the Group. He graduated from Shijiazhuang Post College and has extensive experience in finance and accounting.

ZHAO John Huan

Mr. Zhao, aged 49, was appointed as an executive director of the Company in 2008. He holds a MBA degree from Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. Mr. Zhao has extensive experience in senior management positions at several companies in the United States and the PRC. Mr. Zhao is currently a vice president and executive director of Legend Holdings Limited ("Legend"), the substantial shareholder of the Company, and the CEO of Hony Capital Limited.

Mr. Zhao is also a non-executive director of China Glass Holdings Limited (listed on The Stock Exchange of Hong Kong Limited), a non-executive director of Wumart Stores, Inc. (listed on The Stock Exchange of Hong Kong Limited), a director of Simcere Pharmaceutical Group (listed on New York Stock Exchange) and a non-executive non-independent director of Biosensors International Group, Ltd. (listed on Singapore Exchange Limited).

During 2011, Mr. Zhao ceased to be an independent director of Gemdale Holdings Co., Limited (listed on Shanghai Stock Exchange) and became a director of Fiat Industrial S.p.A. (listed on Borsa Italiana).

WANG Shunlong

Mr. Wang, aged 47, was appointed as an executive director of the Company in 2008. He holds a doctorate degree in engineering from Tsinghua University and has spent three years as a visiting researcher at Eindhoven University of Technology in the Netherlands. Mr. Wang has extensive experience in corporate management and investment planning. Mr. Wang is currently a managing director of Hony Capital Limited and a director of Massive Giant Group Limited ("Massive Giant"), the substantial shareholder of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

WANG Huaiyu

Mr. Wang Huaiyu, aged 49, was appointed as an executive director of the Company in 2010. He is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LU Jianmin

Mr. Lu Jianmin, aged 53, was appointed as an executive director of the Company in 2010. Mr. Lu has extensive technical and management experience in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang Zhenguo, aged 42, was appointed as an executive director of the Company in 2012. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

LEE Ka Sze, Carmelo

Mr. Lee, aged 51, was appointed as a non-executive director of the Company in 1996, redesignated as an independent non-executive director in 1998 and further redesignated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee and the Company Secretary of the Company. Mr. Lee holds a bachelor of laws degree from The University of Hong Kong. He is a practising solicitor and a partner of Woo, Kwan, Lee & Lo. Mr. Lee is currently a deputy chairman of the Listing Committee of The Stock Exchange of Hong Kong Limited.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, The Cross-Harbour (Holdings) Limited, Yugang International Limited, Y.T. Realty Group Limited, Safety Godown Company, Limited and Termbray Industries International (Holdings) Limited, and an independent non-executive director of KWG Property Holding Limited and Ping An Insurance (Group) Company of China, Ltd. All of the above companies are listed on The Stock Exchange of Hong Kong Limited.

HUO Zhenxing

Mr. Huo, aged 76, was appointed as a non-executive director of the Company in 1994 and redesignated as an independent non-executive director in 1998. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 79, was appointed as a non-executive director of the Company in 1996 and redesignated as an independent non-executive director in 1998. He was the deputy commissioner and commissioner of the State Drug Administration of China (now known as the State Food and Drug Administration of China) during 1978-1982 and 1982-1994, respectively.

Mr. Qi is also an independent director of 3SBio, Inc. (listed on NASDAQ).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

GUO Shichang

Mr. Guo, aged 70, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government in the PRC from 1993 to 2002.

Mr. Guo is also an independent director of North China Pharmaceutical Company Limited (listed on the Shanghai Stock Exchange).

CHAN Siu Keung, Leonard

Mr. Chan, aged 54, was appointed as an independent non-executive director of the Company in 2004. He is also the chairman of the Audit Committee and Remuneration Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

Mr. Chan is also an executive director of Tern Properties Company Limited (listed on The Stock Exchange of Hong Kong Limited).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no contracts of significance to which the Company, or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions:

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	4,438,000	0.29%
Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2011.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 31 to the consolidated financial statements, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Massive Giant	Beneficial owner and interest of controlled corporation	826,442,393 *(note i)*	54.02%
Legend	Interest to an agreement	826,442,393 *(note ii)*	54.02%

Notes:

(i) 783,482,393 shares are held by Massive Giant and 42,960,000 shares are held by China Charmaine Pharmaceutical Company Limited, a company owned as to 75% by Massive Giant.

(ii) Legend and Massive Giant are parties to an agreement to which Section 317(1)(a) of the SFO applies. Legend is deemed to be interested in the 826,442,393 shares of the Company held by Massive Giant.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at 31 December 2011.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 24 to the consolidated financial statements. Pursuant to Rule 14A.38 of the listing rule, the board of directors engaged the auditor of the Company to perform certain procedures in respect of the continuing connected transactions of the Group. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

CONNECTED TRANSACTIONS *(continued)*

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

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

During the year, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	**Number of ordinary shares of HK$0.10 each**	**Highest price per share paid**	**Lowest price per share paid**	**Aggregate consideration paid**
		HK$	*HK$*	*HK$*
February 2011	2,744,000	4.49	4.31	12,092,900
June 2011	2,450,000	3.63	3.45	8,740,580
	5,194,000			20,833,480

The above shares were cancelled upon delivery of the share certificates during the year.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

DISCLOSURE UNDER RULE 13.17 OF THE LISTING RULES

Pursuant to a bank loan agreement dated 14 December 2009 entered into between a bank and Shijiazhuang Pharmaceutical Group Company Limited ("SPG") (a non wholly-owned subsidiary of Massive Giant), a facility in the aggregate amount of RMB510,000,000 was made available by the bank to SPG and certain subsidiaries of the Company. The facility is a general working facility for three years from 14 December 2009. Out of the aggregate facility amount of RMB510,000,000, RMB210,000,000 was made available to certain subsidiaries of the Company. As a condition under the loan agreement, Massive Giant has pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. At 31 December 2011, the Group did not utilise the facility.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.17 of the Listing Rules.

Directors' Report

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$123,000.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
CAI Dongchen
Chairman

30 March 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CHINA PHARMACEUTICAL GROUP LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	7	**7,379,481**	7,774,424
Cost of sales		**(5,897,943)**	(5,500,837)
Gross profit		**1,481,538**	2,273,587
Other income		**125,799**	71,121
Selling and distribution expenses		**(521,724)**	(520,826)
Administrative expenses		**(602,700)**	(626,163)
Other expenses		**(105,791)**	(177,889)
Operating profit		**377,122**	1,019,830
Share of profit of a jointly controlled entity		**10,554**	8,732
Finance costs	8	**(73,315)**	(63,788)
Profit before tax	9	**314,361**	964,774
Income tax expense	10	**(63,912)**	(189,963)
Profit for the year		**250,449**	774,811
Profit for the year attributable to:			
Owners of the Company		**233,162**	751,689
Non-controlling interests		**17,287**	23,122
		250,449	774,811
		HK cents	*HK cents*
Earnings per share — Basic	14	**15.23**	48.97

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
Profit for the year	**250,449**	774,811
Other comprehensive income:		
Exchange differences arising on translation to presentation currency	**323,183**	216,581
Loss on fair value change of available-for-sale investments	**(1,264)**	(337)
Other comprehensive income for the year, net of income tax	**321,919**	216,244
Total comprehensive income for the year	**572,368**	991,055
Total comprehensive income attributable to:		
Owners of the Company	**548,555**	963,455
Non-controlling interests	**23,813**	27,600
	572,368	991,055

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	15	**4,877,186**	4,353,404
Prepaid lease payments	16	**350,958**	302,141
Intangible assets	17	**261,718**	207,603
Goodwill	18	**163,878**	156,166
Interest in a jointly controlled entity	20	**41,256**	29,054
Available-for-sale investments	21	**6,169**	7,433
		5,701,165	5,055,801
Current assets			
Inventories	22	**1,641,060**	1,204,864
Trade and other receivables	23	**1,796,265**	1,441,956
Bills receivables	23	**670,034**	810,838
Prepaid lease payments	16	**10,114**	8,808
Tax recoverable		**9,493**	—
Trade receivables due from related companies	24	**15,490**	14,016
Trade receivables due from a connected company	24	**24,128**	14,407
Amount due from a jointly controlled entity	24	**24,420**	26,764
Restricted bank deposits	25	**32,113**	41,930
Bank balances and cash	25	**1,034,536**	1,099,806
		5,257,653	4,663,389
Current liabilities			
Trade and other payables	26	**1,904,670**	1,767,207
Bills payables	26	**725,617**	440,647
Amount due to an immediate holding company	24	**188,036**	—
Amounts due to related companies	24	**3,315**	740
Tax liabilities		**16,455**	60,291
Other financial liabilities	28	**1,321**	—
Unsecured bank loans	27	**880,880**	323,282
		3,720,294	2,592,167
Net current assets		**1,537,359**	2,071,222
Total assets less current liabilities		**7,238,524**	7,127,023

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Unsecured bank loans	27	**1,148,058**	1,206,235
Deferred tax liabilities	29	**47,326**	44,348
		1,195,384	1,250,583
Net assets		**6,043,140**	5,867,440
Capital and reserves			
Share capital	30	**152,977**	153,496
Reserves		**5,747,262**	5,587,013
Equity attributable to owners of the Company		**5,900,239**	5,740,509
Non-controlling interests		**142,901**	135,931
Total equity		**6,043,140**	5,876,440

The consolidated financial statements from pages 21 to 92 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	15	**53**	173
Investments in subsidiaries	32	**1,465,164**	1,465,164
		1,465,217	1,465,337
Current assets			
Other receivables		**8,605**	5,629
Amounts due from subsidiaries	33	**1,168,435**	869,541
Bank balances and cash	25	**40,657**	14,632
		1,217,697	889,802
Current liabilities			
Other payables		**7,306**	35,430
Amount due to an immediate holding company	24	**188,036**	—
Other financial liabilities	28	**1,321**	—
Unsecured bank loans	27	**387,300**	217,400
		583,963	252,830
Net current assets		**633,734**	636,972
Total assets less current liabilities		**2,098,951**	2,102,309
Non-current liability			
Unsecured bank loans	27	**528,700**	418,000
Net assets		**1,570,251**	1,684,309
Capital and reserves			
Share capital	30	**152,977**	153,496
Reserves	34	**1,417,274**	1,530,813
Total equity		**1,570,251**	1,684,309

CAI Dongchen	**CHAK Kin Man**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Equity attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Goodwill reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Non-distributable reserves *HK$'000* *(note i)*	Retained profits *HK$'000*	Total *HK$'000*	Non controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2010	153,496	1,116,727	316	(160,130)	758	715,916	588,202	2,744,999	5,160,284	169,179	5,329,463
Profit for the year	–	–	–	–	–	–	–	751,689	751,689	23,122	774,811
Other comprehensive income (expense) for the year	–	–	–	–	(337)	212,103	–	–	211,766	4,478	216,244
Total comprehensive income for the year	–	–	–	–	(337)	212,103	–	751,689	963,455	27,600	991,055
Final dividend for the year ended 31 December 2009 *(note 13)*	–	–	–	–	–	–	–	(368,391)	(368,391)	–	(368,391)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(23,588)	(23,588)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	8,133	8,133
Acquisition of additional interest in subsidiaries *(note ii)*	–	–	–	–	–	–	–	(14,839)	(14,839)	(45,393)	(60,232)
At 31 December 2010	**153,496**	**1,116,727**	**316**	**(160,130)**	**421**	**928,019**	**588,202**	**3,113,458**	**5,740,509**	**135,931**	**5,876,440**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**233,162**	**233,162**	**17,287**	**250,449**
Other comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**(1,264)**	**316,657**	**–**	**–**	**315,393**	**6,526**	**321,919**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,264)**	**316,657**	**–**	**233,162**	**548,555**	**23,813**	**572,368**
Final dividend for the year ended 31 December 2010 *(note 13)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(367,732)**	**(367,732)**	**–**	**(367,732)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17,103)**	**(17,103)**
Acquisition of additional interest in subsidiaries *(note iii)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(260)**	**(260)**	**260**	**–**
Share repurchased and cancelled	**(519)**	**–**	**519**	**–**	**–**	**–**	**–**	**(20,833)**	**(20,833)**	**–**	**(20,833)**
Transfer to non-distributable reserve	**–**	**–**	**–**	**–**	**–**	**–**	**11,365**	**(11,365)**	**–**	**–**	**–**
At 31 December 2011	**152,977**	**1,116,727**	**835**	**(160,130)**	**(843)**	**1,244,676**	**599,567**	**2,946,430**	**5,900,239**	**142,901**	**6,043,140**

Notes:

(i) The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and jointly controlled entity in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(ii) During the year ended 31 December 2010, the shareholding of the Group in a non wholly-owned subsidiary, CSPC Hebei Zhongrun Huanbao Co., Ltd. ("Zhongrun Huanbao") increased from 84.4% to 99.29%. In addition, the shareholding of the Group in a non wholly-owned subsidiary, CSPC Yinhu Pharmaceutical Co., Ltd., ("Yinhu") increased from 70% to 90%.

(iii) During the year ended 31 December 2011, the shareholding of the Group in a non-wholly owned subsidiary, CSPC (Shijiazhuang) High Medical Technology Development Co., Ltd. ("Gaoke") increased from 82.94% to 95%.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**314,361**	964,774
Adjustments for:		
Amortisation of intangible assets	**45,475**	30,471
Amortisation of prepaid lease payments	**8,381**	7,735
Depreciation of property, plant and equipment	**551,103**	535,946
Finance costs	**73,315**	63,788
Impairment loss on inventories	**30,850**	—
Impairment loss on trade receivables	**1,290**	4,781
Interest income	**(9,100)**	(8,120)
(Gain) loss on disposal/write-off of property, plant and equipment	**(1,208)**	70,065
Share of profit of a jointly controlled entity	**(10,554)**	(8,732)
Fair value changes on other financial liabilities	**1,321**	—
Operating cash flows before movements in working capital	**1,005,234**	1,660,708
Increase in inventories	**(398,363)**	(226,339)
Increase in trade and other receivables	**(277,570)**	(380,884)
Decrease (increase) in bills receivables	**176,488**	(85,088)
Increase in trade receivables due from related companies	**(763)**	(14,016)
(Increase) decrease in trade receivables due from a connected company	**(8,792)**	13,876
Decrease (increase) in amount due from a jointly controlled entity	**2,774**	(8,825)
(Decrease) increase in trade and other payables	**(36,167)**	224,954
Decrease in trade payables due to a related company	**—**	(829)
Increase (decrease) in amounts due to related companies	**2,477**	(6,317)
Decrease in amounts due to connected companies	**—**	(36,565)
Cash generated from operations	**465,318**	1,140,675
Interest received	**9,100**	8,120
Income Tax paid	**(130,126)**	(217,347)
Income Tax refunded	**14,013**	—
NET CASH FROM OPERATING ACTIVITIES	**358,305**	931,448
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(794,209)**	(747,459)
Additions of intangible assets	**(88,325)**	(77,678)
Prepaid lease payments paid	**(42,538)**	(43,163)
Proceeds on disposal of property, plant and equipment	**28,025**	23,137
Dividends received from a jointly controlled entity	**—**	4,546
NET CASH USED IN INVESTING ACTIVITIES	**(897,047)**	(840,617)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
FINANCING ACTIVITIES		
Repayment of unsecured bank loans	**(444,075)**	(1,034,763)
Dividend paid	**(179,696)**	(368,391)
Interest paid	**(73,315)**	(63,788)
Share repurchased	**(20,833)**	—
Dividend paid to non-controlling interests	**(17,103)**	(23,588)
Acquisition of additional interests in subsidiaries	**—**	(60,232)
Repayment of loan from a jointly controlled entity	**—**	(28,409)
Capital contribution from non-controlling interests	**—**	8,133
New unsecured bank loans raised	**895,133**	996,471
Increase in bills payables	**256,867**	83,602
Decrease in restricted bank deposits	**11,601**	8,707
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**428,579**	(482,258)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(110,163)**	(391,427)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,099,806**	1,443,163
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**44,893**	48,070
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**1,034,536**	1,099,806

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is Massive Giant Group Limited ("Massive Giant"), a limited liability company incorporated in the British Virgin Islands and holding approximately 54.02% of the issued share capital of the Company. By virtue of an agreement, Legend Holdings Limited ("Legend"), an investment holding company established in the People's Republic of China (the "PRC"), is entitled to exercise or control the exercise of the shares held by Massive Giant in the Company. Therefore, Legend is regarded as an ultimate holding company of the Company. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollar ("HKD") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised HKFRSs applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Based on the Group's financial assets and financial liabilities as at 31 December 2011, the application of HKFRS 9 will affect the measurement and classification of the Group's available-for-sale investments, but is not likely to affect the Group's other financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) — Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC) — Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. Under HKFRS 11, the jointly controlled entity of the Group will be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement.

However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Goodwill

Goodwill arising on acquisitions of net assets or operations of another entity prior to 1 January 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or where a cash-generating unit to which the goodwill relates becomes impaired.

Goodwill arising on an acquisition of a business on or after 1 January 2001 is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units that is expected to benefit from the synergies of the combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit first. Any impairment loss for the goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly controlled entity

A joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity is referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in a jointly controlled entity is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entity. When the Group's share of losses of the jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. Additional losses is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with the jointly controlled entity, profits or losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of the interests in the jointly controlled entity that are not related to the Group.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial asset/financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the recognition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, trade receivables due from a connected company, trade receivables due from related companies, amount due from a jointly controlled entity, amounts due from subsidiaries, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis. Other than those financial liability classified as at fair value thought profit or loss ("FVTPL"), of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or it is those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at fair value through profit or loss (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities, (including trade and other payables, bills payables, amount due to an immediate holding company, amounts due to related companies, and unsecured bank loans) are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and its interest in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HKD) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment loss

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above).

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The following are the key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at 31 December 2011 was HK$324,008,000 (2010: HK$316,296,000), of which HK$160,130,000 (2010: HK$160,130,000) was included in the goodwill reserve. Details of the recoverable amount calculation are disclosed in note 19.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 27, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	**3,119,352**	3,162,403	**1,210,679**	888,205
Available-for-sale investments	**6,169**	7,433	**—**	—
Financial liabilities				
FVTPL — derivative financial instrument	**1,321**	—	**1,321**	—
Amortised cost	**4,618,225**	3,515,831	**1,104,036**	635,400

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies

The major financial instruments of the Group and the Company include trade and other receivables, bills receivables, trade receivables due from related companies, trade receivables due from a connected company, amount due from a jointly controlled entity, amounts due from subsidiaries, restricted bank deposits, bank balances and cash, trade and other payables, bills payables, amounts due to related companies, amount due to an immediate holding company, other financial liabilities and unsecured bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) *Currency risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States dollars ("USD") and the Company has raised HKD bank loans and USD bank loans, which expose the Group and the Company to foreign currency risk.

The Group and the Company currently do not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period that are considered significant by the management are as follows:

	THE GROUP				THE COMPANY			
	Liabilities		Assets		Liabilities		Assets	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HKD	**860,840**	635,400	**40,185**	14,074	**1,104,036**	635,400	**41,770**	14,071
USD	**157,321**	—	**369,031**	455,545	**1,321**	—	**422**	509

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The Group and the Company are mainly exposed to HKD and USD.

The following tables detail the sensitivity of the Group and the Company to a 5% (2010: 5%) increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	THE GROUP					THE COMPANY				
	HKD Impact		USD Impact			HKD Impact		USD Impact		
	2011	2010	**2011**	2010		**2011**	2010	**2011**	2010	
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	
Post-tax profit	**34,878**	25,149 *(i)*	**(8,998)**	(18,439) *(ii)*		**44,349**	25,940 *(i)*	**38**	(21) *(ii)*	

(i) This is mainly attributable to the exposure outstanding on HKD bank balances and bank loans at year end.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances and receivables and bank loans at year end.

(ii) Interest rate risk

The Group's bank balances and bank deposits carry interest at floating rates and have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rates. The directors of the Company consider the Group's exposure is not significant as those interest bearing bank balances and deposits are within a short maturity period.

The Group is also exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 27 for details of these loans), which are raised from the banks in the PRC.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

The Group and the Company is exposed to cash flow interest rate risk primarily in relation to the floating-rate bank borrowings (see note 27 for details of these borrowings). It is the policy of the Group and the Company to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances expose the Group and the Company to cash flow interest rate risk due to the fluctuation of the prevailing interest rates.

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group and the Company is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR"), London Interbank Offered Rate ("LIBOR") and benchmark interest rate of the PRC ("Benchmark Rate") arising from the Group's HKD loans, USD loans raised by the Company and RMB loans raised by certain subsidiaries of the Company, respectively.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's and the Company's post-tax profit for the year ended 31 December 2011 would decrease/increase by HK$8,203,000 (2010: HK$6,151,000) and HK$3,824,000 (2010: HK$2,653,000), respectively.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in available-for-sale listed equity investments (note 21). The directors of the Company are of the opinion that such investment is held for long-term strategic purpose and management would take necessary action to mitigate the underlying risk should the need arise. In addition, the directors consider the effect of changes in equity prices on the Group is insignificant and therefore, no sensitivity analysis is presented.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2011, the maximum exposure to credit risk by the Group and the Company which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from:

— the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

— the amounts of contingent liabilities in relating to financial guarantees issued by the Group and the Company as disclosed in note 37.

The credit risk exposed by the Group and the Company is mainly exposed to HKD and USD.

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk on trade receivables, bills receivables, trade receivables due from a connected company, trade receivables due from related companies, amount due from a jointly controlled entity and bank balances and cash by geographical location is mainly in the PRC. The Group and the Company has no other significant concentration of credit risk with exposure spread over a number of counterparties.

The credit risk on liquid funds of the Group and the Company is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and the Company and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2011, the Group have available unutilised bank loan facilities HK$389,671,000 (2010: HK$427,059,000). Details of which are set out in note 27.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

THE GROUP

2011

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	1-3 years	Total undiscounted cash flows	Carrying amount at 31.12.2011
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	980,385	679,150	12,784	—	1,672,319	1,672,319
Bills payables	—	197,358	294,926	233,333	—	725,617	725,617
Amount due to an immediate holding company	—	188,036	—	—	—	188,036	188,036
Amounts due to related companies	—	3,315	—	—	—	3,315	3,315
Unsecured bank loans							
— fixed rate	5.20	—	77,926	—	—	77,926	98,765
— floating-rate	3.46	311,901	61,007	462,362	1,163,233	1,998,503	1,930,173
		1,680,995	1,113,009	708,479	1,163,233	4,665,716	4,618,225
Derivative — net settlement							
Interest and foreign currency swaps contracts	—	—	—	1,321	—	1,321	1,321

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

THE GROUP (continued)

2010

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2010 HK$'000
Non-derivative financial liabilities							
Trade and other payables	—	926,287	223,308	395,332	—	1,544,927	1,544,927
Bills payables	—	218,295	222,352	—	—	440,647	440,647
Amounts due to a related companies	—	740	—	—	—	740	740
Unsecured bank loans							
— floating-rate	3.30	—	86,760	196,407	1,213,868	1,497,035	1,447,164
— fixed-rate	5.73	—	3,110	46,644	37,314	87,068	82,353
Financial guarantee contracts	—	—	—	—	29,411	29,411	—
		1,145,322	535,530	638,383	1,280,593	3,599,828	3,515,831

THE COMPANY

2011

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
Non-derivative financial liabilities							
Amount due to an immediate holding company	**—**	**188,036**	**—**	**—**	**—**	**188,036**	**188,036**
Unsecured bank loans							
— floating-rate	**2.42**	**63,498**	**48,136**	**306,545**	**545,638**	**963,817**	**916,000**
		251,534	**48,136**	**306,545**	**545,638**	**1,151,853**	**1,104,036**
Derivative — net settlement							
Interest rate and foreign currency swaps contracts	**—**	**—**	**—**	**1,321**	**—**	**1,321**	**1,321**

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

THE COMPANY (continued)

2010

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	1-3 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Unsecured bank loans							
— floating-rate	1.77	—	71,239	166,150	430,519	667,908	635,400

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6c. Fair value

The fair value of available-for-sale listed equity investments traded in an active liquid market is determined with reference to quoted market bid prices (i.e. level 1 fair value measurement under HKFRS 7).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

7. REVENUE AND SEGMENT INFORMATION

	2011	2010
	HK$'000	*HK$'000*
Sale of goods	**7,379,481**	7,774,424

The Group's operating and reportable segments, identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, board of directors, in order to allocate resources to the segments and to assess their performance, are summarised below. This is also the basis upon which the Group is organised.

(a) Intermediates and bulk drugs

— vitamin C series
— antibiotics series

(b) Finished drugs

(c) Other pharmaceutical related business and research and development activities

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31 December 2011:

	Intermediates and Bulk Drugs						
	Vitamin C series HK$'000	Antibiotics series HK$'000	Finished Drugs HK$'000	Others HK$'000	Segment Total HK$'000	Eliminations HK$'000	Consolidated HK$'000
SEGMENT REVENUE							
External sales	1,747,178	3,091,945	2,422,649	117,709	7,379,481	—	7,379,481
Inter-segment sales	1,300	806,156	—	258,758	1,066,214	(1,066,214)	—
TOTAL REVENUE	1,748,478	3,898,101	2,422,649	376,467	8,445,695	(1,066,214)	7,379,481
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	183,029	105,362	184,974	(1,813)			471,552
Unallocated income							9,100
Unallocated central expenses							(103,530)
Operating profit							377,122
Share of profit of a jointly controlled entity							10,554
Finance costs							(73,315)
Profit before tax							314,361

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2010:

	Intermediates and Bulk Drugs						
	Vitamin C series	Antibiotics series	Finished Drugs	Others	Segment Total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE							
External sales	2,074,070	3,257,899	2,276,340	166,115	7,774,424	—	7,774,424
Inter-segment sales	1,483	892,933	—	290,713	1,185,129	(1,185,129)	—
TOTAL REVENUE	2,075,553	4,150,832	2,276,340	456,828	8,959,553	(1,185,129)	7,774,424
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT	715,935	259,058	176,033	3,555			1,154,581
Unallocated income							8,120
Unallocated central expenses							(142,871)
Operating profit							1,019,830
Share of profit of a jointly controlled entity							8,732
Finance costs							(63,788)
Profit before tax							964,774

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income, central administrative expenses, share of profit of a jointly controlled entity and finance costs. This is the measure reported to the board of directors for the purposes of resources allocation and performance assessment.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	2011	2010
	HK$'000	*HK$'000*
Intermediates and Bulk Drugs:		
Vitamin C series	**1,579,264**	1,482,845
Antibiotics series	**5,365,337**	4,913,203
Finished Drugs	**2,038,178**	1,776,012
Others	**331,448**	370,538
Total segment assets	**9,314,227**	8,542,598
Unallocated	**1,644,591**	1,176,592
Consolidated total assets	**10,958,818**	9,719,190

Segment liabilities

	2011	2010
	HK$'000	*HK$'000*
Intermediates and Bulk Drugs:		
Vitamin C series	**388,905**	409,665
Antibiotics series	**1,458,429**	1,212,427
Finished Drugs	**715,681**	501,420
Others	**43,562**	49,652
Total segment liabilities	**2,606,577**	2,173,164
Unallocated	**2,309,101**	1,669,586
Consolidated total liabilities	**4,915,678**	3,842,750

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

For the purposes of monitoring segment performances and allocating resources among segments:

- all assets are allocated to operating segments other than property, plant and equipment for administrative use, interest in a jointly controlled entity, restricted bank deposits, tax recoverable, other receivables of the Company and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments; and

- all liabilities are allocated to operating segments other than tax liabilities, unsecured bank loans, amount due to an immediate holding company, other payables of the Company and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information

For the year ended 31 December 2011:

	Intermediates and Bulk Drugs						
	Vitamin C series	**Antibiotics series**	**Finished Drugs**	**Others**	**Sub-total**	**Unallocated**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Addition to non-current assets *(note)*	**88,845**	**299,799**	**195,946**	**155,983**	**740,573**	**269,651**	**1,010,224**
Depreciation and amortisation	**158,995**	**391,210**	**50,229**	**4,374**	**604,808**	**151**	**604,959**
Impairment loss on inventories	**—**	**28,902**	**1,948**	**—**	**30,850**	**—**	**30,850**
Impairment loss on trade receivables	**—**	**1,290**	**—**	**—**	**1,290**	**—**	**1,290**

For the year ended 31 December 2010:

	Intermediates and Bulk Drugs						
	Vitamin C series	Antibiotics series	Finished Drugs	Others	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition to non-current assets *(note)*	291,715	349,684	206,708	63,952	912,059	—	912,059
Depreciation and amortisation	149,565	374,200	46,453	3,720	573,938	214	574,152
Impairment loss on trade receivables	—	4,694	87	—	4,781	—	4,781

Note: Non-current assets excluded interest in a jointly controlled entity and available-for-sale investments.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

The following is an analysis of the Group's revenue by geographical market based on geographical location of customers for the year:

	2011	2010
	HK$'000	*HK$'000*
The PRC	**4,453,990**	4,791,686
India	**852,519**	791,237
Other Asian regions	**726,941**	936,304
Americas	**598,413**	629,066
Europe	**563,276**	538,946
Others	**184,342**	87,185
	7,379,481	7,774,424

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group in both years.

8. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on:		
— bank loans wholly repayable within five years	**63,703**	51,805
— loan from a jointly controlled entity wholly repayable within five years	**—**	315
— discounted bills	**703**	1,503
Bank loan arrangement fees	**8,909**	10,165
	73,315	63,788

9. PROFIT BEFORE TAX

	2011 HK$'000	2010 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including those of directors	**657,097**	644,925
Contribution to retirement benefit schemes, including those of directors	**82,371**	79,116
Total staff costs	**739,468**	724,041
Amortisation of intangible assets (included in cost of sales)	**45,475**	30,471
Amortisation of prepaid lease payments	**8,381**	7,735
Depreciation of property, plant and equipment	**551,103**	535,946
Total depreciation and amortisation	**604,959**	574,152
Auditor's remuneration	**2,200**	2,115
Government grant income	**(77,533)**	(20,710)
Impairment loss on trade receivables	**1,290**	4,781
Impairment loss on inventories (included in cost of sales)	**30,850**	—
Interest income	**(9,100)**	(8,120)
(Gain) loss on disposal/write-off of property, plant and equipment (included in other income (2010: other expenses))	**(1,208)**	70,065
Net foreign exchange losses	**8,386**	2,712
Research and development expenditure recognised as an expense (included in other expenses)	**100,901**	99,248

Note:

(1) Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated income statement for both years.

(2) Government grant income was received from the relevant local government authorities of the PRC mainly to encourage PRC subsidiaries i) to improve the effectiveness of the Group's production and ii) to enhance environmental protection, for examples, for having achieved savings in electricity and decreases in sewage discharge during production. Government grant income was recognised upon receipt and fulfillment of conditions set (if any).

10. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
The tax charge comprises:		
PRC Enterprise Income Tax		
— current year	**68,836**	174,118
— (over)underprovision in prior years	**(9,778)**	1,295
	59,058	175,413
Deferred taxation *(note 29)*	**4,854**	14,550
	63,912	189,963

No Hong Kong Profits Tax is payable by the Company nor its subsidiaries incorporated in Hong Kong since they either had no assessable profit or incurred tax losses for both years.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company established before 16 March 2007 are entitled to exemption from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction in tax rate for the next three years.

In addition, certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate to be at a reduced rate of 15% for a period of 2 or 3 years up to 2012 or 2014.

The tax charge for both years represents income tax provision which has taken into account of the above-mentioned tax incentives. The basic tax rate of the Company's PRC subsidiaries is 25%, under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation regulation of the EIT law, except those subsidiaries described above.

10. INCOME TAX EXPENSE *(continued)*

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2011	2010
	HK$'000	*HK$'000*
Profit before tax	**314,361**	964,774
Tax at the domestic income tax rate of 25%	**78,590**	241,194
Tax effect of income not taxable for tax purpose	**(1,142)**	(1,142)
Tax effect of expenses not deductible for tax purpose	**12,690**	23,216
Tax effect of share of results of a jointly controlled entity	**(2,639)**	(2,183)
Tax effect of tax losses not recognised	**27,292**	3,046
Utilisation of tax losses previously not recognised	**—**	(5,671)
Effect of tax exemption, relief and concessions granted to PRC subsidiaries	**(41,319)**	(84,342)
Tax credits granted to PRC subsidiaries	**(4,636)**	—
(Over)underprovision in prior years	**(9,778)**	1,295
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries	**4,854**	14,550
Tax charge for the year	**63,912**	189,963

Details of deferred taxation and unused tax losses are set out in note 29.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 13 (2010: 14) directors were as follows:

2011

	Cai Dongchen HK$'000	Feng Zhenying HK$'000	Chak Kin Man HK$'000	Pan Weidong HK$'000	Zhao John Huan HK$'000	Wang Shunlong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000	Lee Ka Sze, Carmelo HK$'000	Huo Zhenxing HK$'000	Qi Moujia HK$'000	Guo Shichang HK$'000	Chan Siu Keung, Leonard HK$'000	Total HK$'000
Fees	60	60	60	60	—	—	60	60	300	66	66	66	150	1,008
Other emoluments:														
Salaries and other benefits	4,351	605	1,948	605	—	—	605	605	—	—	—	—	—	8,719
Contribution to retirement benefit schemes	422	38	180	38	—	—	38	38	—	—	—	—	—	754
Performance related incentive payment *(note)*	—	—	500	—	—	—	—	—	—	—	—	—	—	500
Total emoluments	4,833	703	2,688	703	—	—	703	703	300	66	66	66	150	10,981

2010

	Cai Dongchen HK$'000	Yue Jin HK$'000	Feng Zhenying HK$'000	Chak Kin Man HK$'000	Pan Weidong HK$'000	Zhao John Huan HK$'000	Wang Shunlong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000	Lee Ka Sze, Carmelo HK$'000	Huo Zhenxing HK$'000	Qi Moujia HK$'000	Guo Shichang HK$'000	Chan Siu Keung, Leonard HK$'000	Total HK$'000
Fees	60	—	60	60	60	—	—	15	15	300	66	66	66	150	918
Other emoluments:															
Salaries and other benefits	4,133	508	677	1,855	677	—	—	169	169	—	—	—	—	—	8,188
Contribution to retirement benefit schemes	397	23	31	171	31	—	—	8	8	—	—	—	—	—	669
Performance related incentive payment *(note)*	12,500	—	1,500	2,300	3,000	—	—	1,850	1,850	—	—	—	—	—	23,000
Total emoluments	17,090	531	2,268	4,386	3,768	—	—	2,042	2,042	300	66	66	66	150	32,775

Note: The performance related incentive payment is determined by the remuneration committee having regard to the performance of Group, performance and responsibilities of individuals as well as prevailing market practices.

No directors waived any emoluments in the years ended 31 December 2010 and 2011.

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group included 4 directors (2010: 5) of the Company, details of their emoluments are set out in note 11 above.

The emoluments of the remaining 1 (2010: nil) individual are as follows:

	2011
	HK$'000
Salaries and other benefits	**506**
Contribution to retirement benefit scheme	**31**
Performance related incentive payment	**500**
	1,037

13. DIVIDEND

	2011	2010
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year: 2010 final dividend of HK24 cents (2010: 2009 final dividend of HK24 cents) per share	**367,732**	368,391

No dividend has been proposed since the end of the reporting period (2010: HK$24 cents per share).

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2011 is based on the profit for the year attributable to the owners of the Company of HK$233,162,000 (2010: HK$751,689,000) and the weighted average number of ordinary shares of 1,531,323,877 (2010: 1,534,960,661 shares in issue) during the year.

No diluted earnings per share is presented for the years ended 31 December 2010 and 2011 as there were no potential ordinary shares in issue during both years.

15. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings in the PRC HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2010	1,604,058	4,280,934	28,066	46,451	532,400	6,491,909
Exchange adjustments	60,781	158,389	1,373	1,716	21,345	243,604
Additions	426	128,799	23,821	6,354	631,818	791,218
Transfers	183,300	409,207	—	—	(592,507)	—
Disposals/write-off	(26,454)	(240,658)	(1,032)	(3,449)	—	(271,593)
At 31 December 2010	**1,822,111**	**4,736,671**	**52,228**	**51,072**	**593,056**	**7,255,138**
Exchange adjustments	**99,643**	**245,124**	**2,683**	**2,762**	**28,204**	**378,416**
Additions	**11,238**	**131,480**	**8,831**	**15,869**	**711,943**	**879,361**
Transfers	**402,694**	**356,272**	**—**	**—**	**(758,966)**	**—**
Disposals/write-off	**(22,604)**	**(27,218)**	**(1,644)**	**(4,139)**	**—**	**(55,605)**
At 31 December 2011	**2,313,082**	**5,442,329**	**62,098**	**65,564**	**574,237**	**8,457,310**
DEPRECIATION						
At 1 January 2010	391,457	2,007,522	18,743	29,198	—	2,446,920
Exchange adjustments	16,262	78,994	872	1,131	—	97,259
Provided for the year	87,384	428,477	13,940	6,145	—	535,946
Eliminated on disposals/write-off	(9,888)	(165,528)	(249)	(2,726)	—	(178,391)
At 31 December 2010	**485,215**	**2,349,465**	**33,306**	**33,748**	**—**	**2,901,734**
Exchange adjustments	**26,037**	**126,510**	**1,787**	**1,741**	**—**	**156,075**
Provided for the year	**93,166**	**440,144**	**9,952**	**7,841**	**—**	**551,103**
Eliminated on disposals/write-off	**(9,082)**	**(15,460)**	**(1,419)**	**(2,827)**	**—**	**(28,788)**
At 31 December 2011	**595,336**	**2,900,659**	**43,626**	**40,503**	**—**	**3,580,124**
CARRYING VALUES						
At 31 December 2011	**1,717,746**	**2,541,670**	**18,472**	**25,061**	**574,237**	**4,877,186**
At 31 December 2010	1,336,896	2,387,206	18,922	17,324	593,056	4,353,404

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

THE GROUP *(continued)*

At 31 December 2010, the aggregate carrying value of building in the PRC for which the Group had not been granted formal title amounted to HK$63,088,000. The title has been obtained during the year ended 31 December 2011.

At 31 December 2011, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to HK$341,083,000. In the opinion of the directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

THE COMPANY

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST			
At 1 January 2010 and 31 December 2010	**1,581**	**1,005**	**2,586**
Addition	**31**	**—**	**31**
Disposal	**(209)**	**—**	**(209)**
At 31 December 2011	**1,403**	**1,005**	**2,408**
DEPRECIATION			
At 1 January 2010	1,194	1,005	2,199
Provided for the year	214	—	214
At 31 December 2010	**1,408**	**1,005**	**2,413**
Provided for the year	**151**	**—**	**151**
Eliminated on disposal	**(209)**	**—**	**(209)**
At 31 December 2011	**1,350**	**1,005**	**2,355**
CARRYING VALUES			
At 31 December 2011	**53**	**—**	**53**
At 31 December 2010	173	—	173

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	Over the shorter of the relevant lease, or 3.3% — 5%
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments with a carrying value of HK$361,072,000 (2010: HK$310,949,000) represent leasehold land in the PRC held under medium-term land use rights. An amount of HK$10,114,000 (2010: HK$8,808,000) is classified under current assets for reporting purpose.

At 31 December 2011, aggregate carrying value of leasehold land in the PRC for which the Group had not been granted formal title is HK$43,298,000. In the opinion of the directors, the absence of formal title does not impair the value of the relevant lease. The directors also believe that formal title to these lease will be granted to the Group in due course.

17. INTANGIBLE ASSETS

	Technical know-how	Development costs	Trademarks and certificates	Utility rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2010	69,221	71,671	34,193	83,766	258,851
Exchange adjustments	2,815	3,291	1,207	3,050	10,363
Additions	28,215	47,052	—	2,411	77,678
At 31 December 2010	**100,251**	**122,014**	**35,400**	**89,227**	**346,892**
Exchange adjustments	**6,272**	**6,839**	**1,748**	**4,406**	**19,265**
Additions	**47,338**	**40,987**	**—**	**—**	**88,325**
At 31 December 2011	**153,861**	**169,840**	**37,148**	**93,633**	**454,482**
AMORTISATION					
At 1 January 2010	7,108	17,845	1,495	77,875	104,323
Exchange adjustments	460	1,093	154	2,788	4,495
Provided for the year	8,128	15,740	3,439	3,164	30,471
At 31 December 2010	**15,696**	**34,678**	**5,088**	**83,827**	**139,289**
Exchange adjustments	**1,118**	**2,363**	**341**	**4,178**	**8,000**
Provided for the year	**13,890**	**26,347**	**3,625**	**1,613**	**45,475**
At 31 December 2011	**30,704**	**63,388**	**9,054**	**89,618**	**192,764**
CARRYING VALUES					
At 31 December 2011	**123,157**	**106,452**	**28,094**	**4,015**	**261,718**
At 31 December 2010	84,555	87,336	30,312	5,400	207,603

17. INTANGIBLE ASSETS *(continued)*

Technical know-how mainly represents techniques and formulae acquired for the development of products and production technology.

Development costs mainly represent costs generated internally for the development of products and production technology.

Trademarks and certificates represent costs incurred in obtaining trademarks and registration certificates for medicines from business combination.

Utility rights represent up-front non-refundable payments to secure the rights to use electricity in the PRC over 10 years.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Technical know-how	5 to 10 years
Development costs	3 to 5 years from date of commencement of commercial operation
Trademarks and certificates	10 years
Utility rights	10 years

18. GOODWILL

	HK$'000
COST	
At 1 January 2010	150,843
Exchange adjustments	5,323
At 31 December 2010	**156,166**
Exchange adjustments	**7,712**
At 31 December 2011	**163,878**

Particulars regarding impairment testing on goodwill are disclosed in note 19.

19. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill as set out in note 18 and the goodwill reserve has been allocated to two groups of cash-generating units ("CGUs") as follows:

	2011	2010
	HK$'000	HK$'000
CGUs of		
— finished drugs ("Unit A")	84,675	81,167
— antibiotics ("Unit B")	239,333	235,129
	324,008	316,296

During the year ended 31 December 2011 and 2010, management of the Group determines that there is no impairment of the above-mentioned cash-generating units containing the goodwill. The basis of the recoverable amounts of the cash-generating units and their major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12% per annum, for Unit A and Unit B. Cash flows beyond the 5-year period are extrapolated based on past trends of pricing cycle of the Group's pharmaceutical products. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of these units.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2011	2010
	HK$'000	HK$'000
Cost of unlisted investment in a jointly controlled entity	19,985	19,985
Share of post-acquisition profits, net of dividends received or receivable	18,731	8,177
Exchange adjustments	2,540	892
	41,256	29,054

At 31 December 2010 and 2011, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

The summarised financial information in respect of the Group's interest in a jointly controlled entity which is accounted for using the equity method is set out below:

	2011	2010
	HK$'000	*HK$'000*
Current assets	**71,543**	51,663
Non-current assets	**93,096**	85,447
Current liabilities	**(124,347)**	(109,021)
Non-current liabilities	—	—
Income recognised in profit or loss	**175,858**	142,898
Expenses recognised in profit or loss	**(165,304)**	(134,166)

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2011	2010
	HK$'000	*HK$'000*
Non-current:		
Equity securities listed in the United States	**4,464**	5,728
Unlisted securities	**1,705**	1,705
Total	**6,169**	7,433

The above listed investment is stated at its fair value at the end of the reporting period.

The above unlisted investment represents investment in unlisted equity securities issued by private entity established in the PRC. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

22. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**313,411**	300,053
Work in progress	**333,419**	340,349
Finished goods	**994,230**	564,462
	1,641,060	1,204,864

23. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	**1,241,130**	1,090,141
Less: allowance for doubtful debts	**(15,278)**	(13,621)
	1,225,852	1,076,520
Bills receivables	**670,034**	810,838
	1,895,886	1,887,358
Other receivables	**570,413**	365,436
	2,466,299	2,252,794

Included in other receivables are value added tax recoverable of HK$224,403,000 (2010: HK$135,572,000), prepayment for utilities of HK$95,377,000 (2010: HK$69,295,000), prepayment for purchase of raw materials of HK$157,853,000 (2010: 82,447,000) and receivables of various nature of HK$92,780,000 (2010: HK$78,122,000).

The Group allows a general credit period of up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on invoice date at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0 to 90 days	**1,001,965**	1,022,490
91 to 180 days	**194,449**	52,499
181 to 365 days	**29,438**	1,531
	1,225,852	1,076,520

23. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(continued)*

The Group's trade receivables that are denominated in a currency other than the functional currencies of the relevant group entities are set out below:

	USD
	HK$'000
As at 31 December 2011	**346,545**
As at 31 December 2010	418,144

No impairment loss is provided for the trade receivables that are neither past due nor impaired (i.e. aged within 90 days) because these receivables are within the credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and experience.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$223,887,000 (2010: HK$54,030,000) which are past due (i.e. aged over 90 days) as at the end of the reporting period for which the Group has not provided for impairment loss as the amounts are still considered recoverable and of good credit quality. The Group does not hold any collateral over these balances.

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movements in the allowance for doubtful debts

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**13,621**	8,726
Impairment loss on trade receivables	**1,290**	4,781
Exchange adjustments	**367**	114
Balance at end of the year	**15,278**	13,621

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2010: 180 days) and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

24. RELATED AND CONNECTED PARTIES DISCLOSURES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these companies during the year, and balances with them at the end of the reporting period, are as follows:

(i) Related and connected companies

Name of company	Nature of transactions/balances	The Group For the year ended 31 December 2011 HK$'000	2010 HK$'000
Shijiazhuang Pharmaceutical Group Company Limited ("SPG") (a non wholly-owned subsidiary of Massive Giant) and its subsidiaries (the "SPG Group")	Sales of vitamin C products *(note a)*	**4,094**	5,161
	Product processing services *(note b)*	**14,492**	6,290
	Sales of antibiotic products *(note c)*	**11,405**	13,217
	Sales of antibiotic products *(note d)*	**4,883**	—
	Rental expenses *(note e)*	**8,171**	7,751
	Sales of finished drugs *(note f)*	**13,414**	8,548
	Sales of finished drugs *(note g)*	**25,961**	—

	The Group As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
Balance due from (to) the SPG Group		
— trade receivables		
aged 0 — 90 days	**15,490**	13,901
aged 91 — 180 days	**—**	115
	15,490	14,016
— other payable *(note h)*	**(3,315)**	(740)

During the year ended 31 December 2011, a credit facility in the aggregate amount of RMB510,000,000 was made available by a bank to SPG and certain subsidiaries of the Company for RMB300,000,000 and RMB210,000,000 respectively. The credit facility is a general working capital facility for three years from 14 December 2009. At 31 December 2011, the Group did not utilise the facility.

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(I) Related and connected companies *(continued)*

As at 31 December 2011, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of RMB610,000,000 (31 December 2010: RMB570,000,000) granted to the Group. At 31 December 2011, the extent of utilisation by the Group amounted to RMB610,000,000 (31 December 2010: RMB570,000,000).

(II) An immediate holding company

		The Group and the Company	
Name of company	**Nature of balances**	**As at 31 December 2011 *HK$'000***	As at 31 December 2010 *HK$'000*
Massive Giant	Dividend payable *(note h)*	**(188,036)**	—

(III) A connected company

		The Group For the year ended 31 December	
Name of company	**Nature of transactions/balances**	**2011 *HK$'000***	2010 *HK$'000*
Guangdong Titan Pharmaceutical Co., Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of the non-controlling interest of a subsidiary	Sale of intermediate products *(note j)*	**70,857**	118,442

		The Group	
		As at 31 December 2011 *HK$'000*	As at 31 December 2010 *HK$'000*
Guangdong Titan	Trade receivables *(note j)* aged 0 — 90 days	**24,128**	14,407

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(IV) A jointly controlled entity

Name of company	Nature of transactions/balances	The Group For the year ended 31 December 2011 HK$'000	2010 HK$'000
Huarong, a jointly controlled entity of the Group	Purchase of raw materials	—	8,593
	Provision of utility services by the Group *(note i)*	**36,977**	17,995

	The Group As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
Balance due from Huarong		
— dividend receivables	**10,667**	10,667
— other receivables	**13,753**	6,007
— trade receivables *(note h)* aged 0 — 90 days	—	10,090
	24,420	26,764

(V) Compensation of key management personnel

The remuneration of key management personnel of the Group during the year is as follows:

	2011 HK$'000	2010 HK$'000
Short-term benefits	**9,578**	31,458
Post-employment benefits	**755**	669
	10,333	32,127

The above remuneration is determined by the remuneration committee having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

Notes:

(a) On 13 May 2009, CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. ("Weisheng"), a wholly-owned subsidiary of the Company, entered into an agreement with CSPC Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), a wholly-owned subsidiary of SPG, in relation to the sale of vitamin C products for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Ouyi.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

(b) On 13 May 2009, CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo"), a wholly-owned subsidiary of the Company, entered into an agreement with Ouyi and pursuant to which Ouyi provides product processing services to Zhongnuo for various cephalosporin powder injection products for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group is able to obtain reliable processing services for the Group's products.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

(c) On 13 May 2009, CSPC Hebei Zhongrun Pharmaceutical Co., Ltd. ("Zhongrun"), a non wholly-owned subsidiary of the Company, entered into an agreement with Ouyi in relation to the sale of antibiotic products for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group would be able to maintain and expand the business relationship with Ouyi.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

(d) On 30 June 2011, Gaoke, a non wholly-owned subsidiary of the Company, entered into an agreement with Ouyi in relation to the sale of antibiotic products for a term of three years from 1 July 2011 to 30 June 2014. By entering into this agreement, the Group would be able to maintain and expand the business relationship with Ouyi.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the company dated 30 June 2011.

(e) On 5 March 2009, Zhongnuo entered into a lease agreement with SPG to lease two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of three years commencing on 5 March 2009 with the monthly rental of RMB427,108.

On 20 July 2002, Zhongnuo entered into another agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised to RMB138,033 on 1 August 2009 for a term of three years.

The Group's rental expenses were paid in accordance with the relevant tenancy agreements.

(f) On 23 August 2010, Zhongnuo entered into an agreement with Hebei Aipu Pharmaceutical Co., Ltd. ("Aipu"), a non wholly-owned subsidiary of SPG, in relation to the sale of finished drug products for a term of three years from 23 August 2010 to 22 August 2013. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Aipu.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 23 August 2010.

24. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

Notes: (continued)

(g) On 10 January 2011, Zhongnuo and Yinhu entered into an agreement with CSPC Hebei Zhongchen Pharmaceutical Co., Ltd. ("Zhongchen"), a non wholly-owned subsidiary of SPG, in relation to the sale of finished drug products for a term of three years from 1 January 2011 to 31 December 2013. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Zhongchen.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 10 January 2011.

(h) At the end of the reporting period, these amounts were aged within one year, unsecured, interest-free and repayable on demand.

(i) The transactions were carried out based on the actual costs of utilities incurred by the Group.

(j) On 29 July 2008, Siping City Fine Chemicals Products Company Limited ("Siping"), a non wholly-owned subsidiary of the Company, entered into an agreement with Guangdong Titan in relation to the sales of pharmaceutical intermediate products for a term of three years from 29 July 2008 to 28 July 2011. By entering into the agreement, the Group will be able to maintain the business relationship with Guangdong Titan.

After the end of the agreement term, the above transactions no longer constitute continuing connected transactions pursuant to Rule 14A.31(9) of the Listing Rules.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 29 July 2008.

25. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 3.1% (2010: 0.01% to 1.67%) per annum.

As at 31 December 2011 and 2010, restricted bank deposits represent deposits required to be placed in banks for securing short term banking facilities and are classified as current assets. The restricted bank deposits will be released upon settlement of relevant short term bank facilities.

The bank balances and restricted bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	THE GROUP		THE COMPANY	
	HKD	**USD**	**HKD**	**USD**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2011	**40,185**	**22,443**	**40,185**	**422**
As at 31 December 2010	14,074	37,401	14,074	509

26. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**949,102**	773,507
Bills payables	**725,617**	440,647
	1,674,719	1,214,154
Other payables	**955,568**	993,700
	2,630,287	2,207,854

Included in other payables are payables for the acquisition of property, plant and equipment of HK$585,344,000 (2010: HK$474,651,000), receipts in advance from customers of HK$102,383,000 (2010: HK$105,865,000), and accruals and payables of various nature of HK$267,841,000 (2010: HK$413,184,000).

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
0 to 90 days	**848,658**	731,593
91 to 180 days	**81,919**	31,850
181 to 365 days	**11,474**	8,331
More than 365 days	**7,051**	1,733
	949,102	773,507

The general credit period on purchases of goods is up to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

All bills payable of the Group are aged within 180 days and not yet due at the end of the reporting period.

27. UNSECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured				
— floating-rate HKD bank loans	**860,840**	635,400	**760,000**	635,400
— floating-rate USD bank loan	**156,000**	—	**156,000**	—
— floating-rate RMB bank loans	**913,333**	811,764	**—**	—
— fixed-rate RMB bank loans	**98,765**	82,353	**—**	—
Total	**2,028,938**	1,529,517	**916,000**	635,400
The above bank loans are repayable as follows:				
Within one year	**880,880**	323,282	**387,300**	217,400
More than one year, but not more than two years	**857,396**	458,638	**382,700**	164,520
More than two years, but not more than five years	**290,662**	747,597	**146,000**	253,480
	2,028,938	1,529,517	**916,000**	635,400
Less: Amounts due within one year shown under current liabilities	**(880,880)**	(323,282)	**(387,300)**	(217,400)
Amounts due after one year	**1,148,058**	1,206,235	**528,700**	418,000

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

Effective interest rate:	**2011**	**2010**
Floating-rate HKD banks loans	**0.71% to 2.78% per annum**	0.67% to 2.73% per annum
Floating-rate USD banks loan	**3.01% to 3.06% per annum**	2.57% to 2.73% per annum
Floating-rate RMB bank loans	**3.50% to 5.99% per annum**	3.51% to 5.31% per annum
Fixed-rate RMB bank loans	**3.25% to 6.06% per annum**	3.51% to 4.78% per annum

The floating-rate of HKD, RMB and USD bank loans are subject to interest at HIBOR plus a spread, discounted PRC benchmark rate and LIBOR plus a spread, respectively.

27. UNSECURED BANK LOANS *(continued)*

The borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	THE GROUP		THE COMPANY	
	USD	**HKD**	**USD**	**HKD**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2011	**156,000**	**860,840**	**156,000**	**760,000**
As at 31 December 2010	—	635,400	—	635,400

At the end of the reporting period, the Group had undrawn loan facilities to the extent of HK$90,000,000 (2010: HK$180,000,000), HK$101,400,000 (2010: nil), HK$173,580,000 (2010: HK$235,294,000) and HK$24,691,000 (2010: HK$11,765,000) in respect of floating-rate HKD bank loans, floating-rate USD bank loans, floating-rate RMB bank loans and fixed-rate RMB bank loans, respectively.

At the end of the reporting period, the Company had undrawn facilities to the extent of HK$90,000,000 (2010: HK$180,000,000), HK$101,400,000 (2010: nil) and HK$50,000,000 (2010: nil) in respect of floating-rate HKD bank loans, floating-rate USD bank loans and floating-rate RMB bank loans, respectively.

28. OTHER FINANCIAL LIABILITIES

	2011	2010
	HK$'000	*HK$'000*
Other derivatives (not under hedge accounting):		
Foreign currency derivatives	**1,162**	—
Interest rate swap	**159**	—
	1,321	—

Major terms of the foreign currency derivatives as at 31 December 2011 are as follows:

(i) Forward contract

The Group has entered into a forward contract to buy HK$/sell RMB at a fixed rate of RMB0.8263/HK$. The notional amount of the contract is RMB99,156,000 and the maturity date is 13 June 2012.

(ii) Structured forward contract

The Group has entered into a net-settled US$/RMB structured forward contract which gives the Group the opportunities to buy RMB at a rate better than the prevailing market spot rate if the market exchange rate is at or below RMB6.44/US$ on the fixing date. However, the Group is obliged to sell US$/buy RMB at a fixed rate of RMB6.44/US$ if the market exchange rate is above RMB6.46/US$ for US$5 million per month for a period of 12 months. As at 31 December 2011, the remaining tenor of the contract was 10 months.

28. OTHER FINANCIAL LIABILITIES *(continued)*

Major terms of the interest rate swap as at 31 December 2011 are as follows:

Notional amount	Maturity	Interest rate
HK$120,000,000	13 June 2012	From HIBIOR to 0.58%

The above derivative are measured at fair value at the end of each of the reporting periods. Their fair values are determined based on the quoted prices by counterparty financial institutions for equivalent instrument at the end of the reporting period.

29. DEFERRED TAXATION

The deferred tax liabilities recognised by the Group and movements thereon during the year are as follows:

	Undistributable profit of subsidiaries *HK$'000*
At 1 January 2010	35,323
Charge to profit or loss	14,550
Withholding tax paid	(5,682)
Exchange difference	157
At 31 December 2010	**44,348**
Charge to profit or loss	**4,854**
Withholding tax paid	**(2,104)**
Exchange difference	**228**
At 31 December 2011	**47,326**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to certain accumulated profits of the PRC subsidiaries amounting to HK$2,344,485,000 (2010: HK$2,117,976,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

29. DEFERRED TAXATION *(continued)*

At the end of the reporting period, the Group had unused tax losses of HK$199,910,000 (2010: HK$90,742,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

The unrecognised tax losses will expire in:

	2011	2010
	HK$'000	*HK$'000*
2014	**78,558**	78,558
2015	**12,184**	12,184
2016	**109,168**	—
	199,910	90,742

There was no other significant deferred taxation for the year or at the end of the reporting period.

30. SHARE CAPITAL

	Number of shares	**Share capital**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2010, 31 December 2010 and 31 December 2011	3,000,000,000	300,000

	Number of shares	**Share capital**
		HK$'000
Issued and fully paid:		
At 1 January 2010, 31 December 2010	1,534,960,661	153,496
Shares repurchased and cancelled	(5,194,000)	(519)
At 31 December 2011	1,529,766,661	152,977

31. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme (i.e. 153,812,466 shares). The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

32. INVESTMENTS IN SUBSIDIARIES

	2011	2010
	HK$'000	*HK$'000*
Unlisted investments, at cost	**1,465,164**	1,465,164

Particulars of the Company's subsidiaries as at 31 December 2011 and 2010 are set out in note 39.

33. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and recoverable within twelve months from the end of the reporting period.

34. RESERVES OF THE COMPANY

	Share premium	Capital redemption reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	1,116,727	316	585,678	1,702,721
Final dividend for the year ended 31 December 2009	—	—	(368,391)	(368,391)
Profit for the year	—	—	196,483	196,483
At 31 December 2010	**1,116,727**	**316**	**413,770**	**1,530,813**
Final dividend for the year ended 31 December 2010	**—**	**—**	**(367,732)**	**(367,732)**
Profit for the year	**—**	**—**	**274,507**	**274,507**
Share repurchased and cancelled	**—**	**519**	**(20,833)**	**(20,314)**
At 31 December 2011	**1,116,727**	**835**	**299,712**	**1,417,274**

35. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2011	2010
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of land and buildings	**17,021**	15,392

35. OPERATING LEASE COMMITMENTS *(continued)*

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**6,587**	11,790	**2,313**	2,170
In the second to fifth year inclusive	**5,953**	6,087	**2,567**	4,218
	12,540	17,877	**4,880**	6,388

Operating lease payments represent rentals payable by the Group for certain of its office, factory properties and staff quarters. Leases are negotiated and rentals are fixed for terms of two to three years.

36. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2011	2010
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— property, plant and equipment	**255,689**	307,965
— intangible assets	**128,099**	29,635
	383,788	337,600

The Company had no capital commitments at the end of the reporting period.

37. CONTINGENT LIABILITIES

The Group and the Company

(i) The Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. It is alleged in these complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and therefore, suffered losses. The plaintiffs purported to bring these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes. The plaintiffs (purportedly as representatives of classes of similarly situated purchasers) seek damages and other relief. Up to the date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary. The legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court in New York for pretrial purpose.

The Company has submitted a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of 27 May 2008. In addition, on 31 August 2009, the Company submitted an alternative motion for summary judgment to dismiss the direct purchaser action on the ground there is insufficient evidence indicating the Company was involved in the alleged conspiracy. The court has not ruled on these motions.

Pursuant to a stipulation entered into by plaintiffs and defendants in November 2008, all procedures in actions brought by indirect purchaser plaintiffs are stayed until a final judgment is entered by the court in the direct purchaser action. Set forth below is a summary of main matters pertaining to the direct purchaser action.

In February 2007, the direct purchaser plaintiffs amended their complaint and sought to represent only those who purchased vitamin C for delivery in the United States, other than pursuant to a contract containing an arbitration clause, from any defendants other than one named defendant.

Fact discovery relevant to merits was concluded in October 2008. On 15 January 2009, plaintiffs and defendants agreed to a case schedule, which bifurcated liability and damages issues and allowed certain liability issues to be determined by the court first.

On 26 January 2012, the court issued an order permitting two named plaintiffs to represent other similarly situated purchasers in pursuing the claims in the direct purchaser case.

37. CONTINGENT LIABILITIES *(continued)*

(i) *(continued)*

The subsidiary and other defendant manufacturers submitted a joint motion for summary judgment, asserting the alleged conduct was compelled by Chinese government pursuant to Chinese laws and policy. That motion was fully briefed as of 5 February 2010. On 6 September 2011, the court issued an order denying defendant manufacturers' joint motion for summary judgment. On 9 February 2012, the court denied defendant manufacturers' request for permission to immediately appeal its September 2011 order.

On 9 March 2012, the court set a new schedule, pursuant to which expert discovery on damages shall be completed by 7 September 2012 and a trial be set in October 2012. Direct purchaser plaintiffs' expect estimated the single damages to be US$58.4 million. U.S. federal antitrust laws provide for treble damages, which defendants are jointly and severally liable for. Defendants have retained their own expect who will challenge plaintiffs' damages analysis.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Company and the subsidiary have appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

(ii) **THE GROUP**

There was no guarantee given by the Group as at 31 December 2011. At 31 December 2010, a corporate guarantee of RMB25,000,000 was given by certain subsidiaries of the Group to a bank in the PRC in respect of banking facilities granted to Huarong. An amount of RMB25,000,000 was utilised by Huarong as at 31 December 2010.

THE COMPANY

There was no guarantee given by the Company as at 31 December 2011 and 2010.

38. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK$82,371,000 (2010: HK$79,116,000), of which HK$707,000 (2010: HK$676,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

39. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2010 and 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				Directly	Indirectly	
				%	%	
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	100	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	100	—	Investment holding
Zhongrun	The PRC	Limited liability cooperative joint venture enterprise	RMB513,490,300	81.08	18.21	Manufacture and sale of pharmaceutical products
CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd	The PRC	Foreign investment enterprise with limited liability	RMB273,150,000	100	—	Manufacture and sale of pharmaceutical products
Weisheng	The PRC	Foreign investment enterprise with limited liability	US$27,345,500	100	—	Manufacture and sale of pharmaceutical products
Zhongnuo	The PRC	Foreign investment enterprise with limited liability	RMB282,810,000	100	—	Manufacture and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	100	—	Provision of pharmaceutical research and development services
Zhongrun Huanbao	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	99.29	Sewage treatment

39. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB18,000,000	80.42	19.58	Sewage treatment
CSPC (Inner Mongolia) Zhongkang Sugar Products Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB33,000,000	—	100	Manufacture and sale of pharmaceutical products
CSPC (Inner Mongolia) Zhongxing Huanbao Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB15,000,000	—	100	Sewage treatment
Yinhu	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000 (2010: RMB100,000,000)	—	90	Manufacture and sale of pharmaceutical products
CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB155,000,000	—	89.36	Manufacture and sale of pharmaceutical products
CSPC Cenway (Inner Mongolia) Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB40,000,000 (2010: RMB20,000,000)	—	94.57	Manufacture and sale of pharmaceutical products
Beijing Cenway Pharmaceutical Technology Research Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	—	89.36	Provision of pharmaceutical research and development services
Heibei Hong Yuan Chemical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB10,000,000	100	—	Manufacturing and sale of pharmaceutical products

39. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Gaoke	The PRC	Sino-foreign equity joint venture company	RMB30,000,000	25	70 (2010: 57.94)	Provision of pharmaceutical research and development services
Siping	The PRC	Sino-foreign equity joint venture company	RMB39,529,435	40	19.86	Manufacture and sale of pharmaceutical products
Unigene Biotechnology Co., Ltd.	The PRC	Sino-foreign equity joint venture company	US$7,000,000	55	—	Provision of pharmaceutical research and development services
Shanxi Zhongnuo Pharmaceutical Co., Ltd. (deregistered during 2011)	The PRC	Foreign investment enterprise with limited liability	RMB100,000,000	—	100	Manufacture and sale of pharmaceutical products
CSPC Zhongzhen Pharmaceutical Logistic Company Limited	The PRC	Sino-foreign equity joint venture company	RMB50,000,000	—	98.3	Storage, sourcing and distribution
Subsidiaries incorporated in 2011						
CSPC Zhongnuo Pharmaceutical Import and Export Trading Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB1,000,000	—	100	Sale of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB45,000,000	—	100	Manufacture and sale of pharmaceutical products

39. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				Directly	Indirectly	
				%	%	
CSPC Medsolution (Ghana) Limited	Ghana	Foreign investment enterprise with limited liability	GHS437,400	—	100	Sales of pharmaceutical products

None of the subsidiaries had any debentures outstanding at the end of the year or at any time during the year.

Financial Summary

RESULTS

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	4,986,059	6,829,995	7,031,601	7,774,424	**7,379,481**
Cost of sales	(3,449,641)	(4,548,661)	(4,764,308)	(5,500,837)	**(5,897,943)**
Gross profit	1,536,418	2,281,334	2,267,293	2,273,587	**1,481,538**
Other income	27,278	42,834	49,482	71,121	**125,799**
Selling and distribution expenses	(379,203)	(470,787)	(587,842)	(520,826)	**(521,724)**
Administrative expenses	(471,280)	(514,493)	(461,522)	(626,163)	**(602,700)**
Other expenses	(75,373)	(122,950)	(72,720)	(177,889)	**(105,791)**
Operating profit	637,840	1,215,938	1,194,691	1,019,830	**377,122**
Share of results of a jointly controlled entity	(2,683)	1,442	1,035	8,732	**10,554**
Finance costs	(112,809)	(109,367)	(69,916)	(63,788)	**(73,315)**
Profit before tax	522,348	1,108,013	1,125,810	964,774	**314,361**
Income tax expense	(45,569)	(160,983)	(142,776)	(189,963)	**(63,912)**
Profit for the year	476,779	947,030	983,034	774,811	**250,449**
Attributable to:					
Owners of the Company	477,388	940,560	970,739	751,689	**233,162**
Non-controlling interests	(609)	6,470	12,295	23,122	**17,287**
	476,779	947,030	983,034	774,811	**250,449**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share — Basic	31.04	61.16	63.24	48.97	**15.23**

Financial Summary

ASSETS AND LIABILITIES

	At 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	6,458,745	7,903,406	8,957,534	9,719,190	**10,958,818**
Total liabilities	(3,087,605)	(3,320,211)	(3,628,071)	(3,842,750)	**(4,915,678)**
Net assets	3,371,140	4,583,195	5,329,463	5,876,440	**6,043,140**
Equity attributable to owners of the Company	3,352,298	4,497,378	5,160,284	5,740,509	**5,900,239**
Non-controlling interests	18,842	85,817	169,179	135,931	**142,901**
Total equity	3,371,140	4,583,195	5,329,463	5,876,440	**6,043,140**