利君國際醫藥
(控股)有限公司
Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2005

Annual Report

2011

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Wu Qin *(Chairman)*
Mr. Qu Jiguang
Mr. Xie Yunfeng
Mr. Huang Chao
Mr. Wang Xianjun
Mr. Duan Wei
Ms. Zhang Guifu
Mr. Bao Leyuan
Ms. Gao Shuping

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Chow Hing Yeung

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681 GT, Grand Cayman
KY1-1111, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office 2809, 28th Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Mr. Bao Leyuan

AUDIT COMMITTEE

Mr. Chow Kwok Wai *(Committee Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun *(Committee Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

NOMINATION COMMITTEE

Mr. Wang Yibing *(Committee Chairman)*
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
P.O. Box 705, Butterfield House, 68 Fort Street
George Town, Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Bank of China
Bank of China (Hong Kong) Ltd.
Industrial and Commercial Bank of China
China Construction Bank
China Construction Bank (Asia)
China Merchants Bank
China Minsheng Banking Corp., Ltd.
China CITIC Bank
Hang Seng Bank
CITIC Bank International
Banks of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Shijiazhuang City Commercial Bank

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

PricewaterhouseCoopers

WEBSITE

http://www.lijun.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

1. RESULTS AND DIVIDEND DISTRIBUTION

In 2011, the difficulties faced by the Group were unprecedented. On one hand, with intensifying domestic inflation, the prices of energy power, raw and auxiliary materials and labour costs had continued to rise, while on the other hand, the National Development and Reform Commission had substantially reduced the prices of pharmaceutical products with the nationwide launching of the essential medicine tender policy of "only lower price can prevail". Hence, sales of the Group's products was vastly affected, resulting a substantial drop of its overall gross profit margin. Meanwhile, city construction tax and supplemental education tax were imposed since 2011. Facing such uncontrollable and unfavourable profit reduction factors, the Group managed to expand the production and sales scale of its leading branded products, strive to reduce its production and operation costs, proactively adjust the management and growth models, and strive to overcome the adverse impact from policy change and market competition, for which both the Company and staff had made great contribution in this respect.

During 2011, the Group's revenue of its principal business amounted to HK$2,155,000,000, representing an increase of 9.3% as compared with last year; among which, HK$1,119,000,000 was from Xi'an Lijun, representing a decrease of 5.4% as compared with last year, and HK$1,036,000,000 was from Shijiazhuang No.4 Pharma, representing an increase of 31.4% as compared with last year. The Group achieved a net profit of HK$183,000,000, and after deducting provision for impairment of goodwill of HK$224,000,000, the loss attributable to shareholders was HK$41,400,000. The impairment of goodwill will not affect the cash flow position of the Group.

The Board recommended the payment of final dividend of HK$0.02 per share for the second half year, and together with the interim dividend of HK$0.02 per share, total dividend for the year were HK$97,790,000, representing an increase of 1.8% as compared with the total dividend for last year of HK$96,080,000.

2. REVIEW OF OPERATING RESULTS

(1) Product marketing

1. Doubling production scale and further optimizing the structure of intravenous infusion solutions

The infusion solution products became the severely-affected sector under the new essential medicine tender policy. However, the Group was successful in coping with the market changes and policy variation, and achieved remarkable results through enhancing the domestic market and expanding foreign trade sales. The Group had further optimized its infusion solution product structure with sales revenue of non-PVC soft bag infusion solution and PP plastic bottle infusion solution during the year increased by 49% and 31.2% respectively as compared with the same period last year. The Group's customer base is moving further towards the high-end.

Foreign trade export and processing continued to growth. The Group's product is exporting to 50 countries and regions with export sales reached US$7,500,000, representing a year-on-year increase of 14.3%.

2. REVIEW OF OPERATING RESULTS *(continued)*

(1) Product marketing *(continued)*

2. Antibiotics business was severely affected by national price reduction policy

In March 2011, the National Development and Reform Commission lowered the prices of numerous antibiotics. Among which, the prices of Lijunsha and Paiqi, our leading branded products, were lowered by 10% to 52% respectively. As a result, both sales and profit were reduced. Sales of Lijunsha dropped for the first time for more than 10 years to less than HK$400,000,000, and sales of Paiqi products also failed to achieve the anticipated target. Amid the price reduction of Lijunsha, the Group determined to rectify Lijunsha's market by solving problems of price distortion in its market. At the same time, the Group vigorously developed the second-tier distribution to strive for achieving comprehensive commercial distribution and continuously enhancement of the terminal network systems, which had mitigated, to a certain extent, the impact from the national policy change on the Group's operation.

3. Steady development of key brand preparation and general medicines

The Group further strengthened the end-user market promotion of key products such as Dobesilate and Lixiding and made every effort to expand the market share of general medicines product market. Under the demise of severe market situation, sales of Dobesilate amounted to HK$92,600,000 for the year, representing a growth of 13% as compared to last year. Facing the state's price reduction pressure of 23.8%, sales of Lixiding amounted to HK$31,790,000 for the year, representing a decrease of 10.5% as compared to last year. Sales of new OTC products including Haogan influenza drugs, Lijungai, Weikoujia and Kehao amounted to HK$20,790,000, representing an increase of 42% as compared to last year. Sales of general medicines amounted to HK$424,000,000 for the year, representing an increase of 11％ as compared to last year.

2. **REVIEW OF OPERATING RESULTS** *(continued)*

(2) New projects establishment and new products development

1. Infusion solution capacity expansion project was completed and commenced operation

During the year, the modernized soft-packaging infusion solution with an annual capacity of 500,000,000 bottles (bags) and its ancillary logistic project were fully completed and commenced production in March 2012. The modernized soft-packaging infusion solution and its logistics ancillary project were all designed for fully compliance with European Union certification standards. The project mainly produced new soft bag infusion solution products like single-outlet pipe and double-outlet double valve which doubled the production capacity of infusion solution. This project had greatly increased the supply capacity and competitiveness of the Group's soft-packaging infusion solution product in the market and helped to further consolidate its leading position in the industry, thereby laying an even stronger foundation for the future sustainable development of the Group.

2. New product research and development was making progress

Shijiazhuang No. 4 Pharma obtained four specifications add-in production permits successively, including Levofloxacin Lactate and Sodium Chloride Injection and Mannitol Injection, ten permits for production technique alteration and packaging materials registration, and one design patent. Shijiazhuang No. 4 Pharma completed the application and preparation methods of three invention patents such as Cefprozil Tablets and Cefdinir Capsules.

"New drug for curing Alzheimer's disease" of Xi'an Lijun Pharmaceutical had obtained the authorization for compounds invention patent; "Technology Re-engineering on Erythromycin Ethylsuccinate Crystallization", a project of "New Key Drug Project of Twelfth Five-Year", had entered into a contract with the Ministry of Science and Technology of China; the "Duan Xue Liu Capsules" project was awarded the Third Prize of Xi'an Scientific and Technological Advancement; Dirithromycin Enteric-coated Tablets (0.25g specification) had obtained the clinical trial permit. "Compound Dextral Ibuprofen Sustained-release Double-layered Tablets", a drug for curing trachea inflammation, and "Type 1.1 New Drug MeN061016-1", a drug for curing vascular dementia had completed the application of a domestic invention patent for new indication.

(3) Impairment of goodwill

The goodwill was attributable to the Group's acquisition of Shijiazhuang No. 4 Pharma in June 2007. According to the accounting standard, goodwill is tested for determining whether there is evidence for impairment every year. According to the data from 2012-2016 development projection of Shijiazhuang No.4 Pharma, and after the evaluation performed by the valuer, Jones Lang LaSalle, gross profit margin of infusion solution business is expected to decrease, so a provision for impairment goodwill of HK$224,000,000 is required. The provision for impairment will not affect the cash flow position of the Group, and we believe the infusion solution business will still make positive contributions to the Group.

3. DEVELOPMENT OUTLOOK

Looking forward to 2012, I believe the situation that the Group encounter will still be severe and the operation environment will become more difficult. There will be a further increases in price for raw materials and power and labor costs which will adversely affect our profit. Product selling price will continue to make downward adjustments due to the dual restrictions in national policy and market competition. The gross profit margin will be decreased and thus enterprises are facing the double challenges of survival and development. The Group will further enhance the marketing, economize costs in all aspects, reduce expenditure and develop better new products, in order to be prepared for surpassing this challenge as well as laying a solid foundation for market turnaround in the future.

(1) Product marketing

1. Expanding the scale of production and market share of infusion solution products

For this year, we will strive to realize full operation of new production lines and facilitate them to achieve the designed production scale. We will further expand the sales proportion of non-glass bottle infusion solution products and therapeutical infusion solution products and increase the production and sale for categories of infusion solutions in new packaging. While expanding the domestic market, we will enhance our overseas sales and focus on the market development in APEC and African countries.

2. Ensuring a steady growth for the sales of antibiotics categories

We will further enhance the second-tier distribution of our leading branded product, Lijunsha, on the basis of ensuring "right selling price in place" and strive to achieve comprehensive commercial sales. We will also put emphasis on the delivery and scale expansion in the region in which the tender was being awarded for Lijunsha capsules, enhance the distribution and end-user promotion of Lijunsha granules and strive to realize a steady growth for the overall sales of Lijunsha for the year.

We will leverage on the strengths of "Chinese Well-known Trademark" for Paiqi series and strengthen its efforts in promotion and enhance marketing towards the end-users. We will also focus on the development of potential sales for Paiqi oral intake series, proactively expand the end-user markets and strive to increase its sales. Based on the current actual market conditions, we will further study the improvement and adjustment of the packaging and pricing of Limaixian, enhance the academic promotion in hospitals and its sales growth in drugstores. We will operate Cephalosporin Powder Injection series based on scale marketing prudentially to ensure attaining our annual target.

3. **DEVELOPMENT OUTLOOK** *(continued)*

(1) **Product marketing** *(continued)*

3. **Strive for rapid growth in the sales of advantageous featured categories and general medicines**

While continuing to strengthen our efforts in the academic promotion in hospitals and clinics and securing the growth in the prescription sales for Dobesilate, we will also focus on expanding the drugstores OTC market. By strengthen our efforts in end-user promotion and marketing mainly through larger-sale drugstore chains, we are able to ensure a sales volume of exceeding the HK$100,000,000 mark for this year. In addition to promoting the sales of the 25mg infusion solution of Lixiding, we will focus on the sales of 50mg infusion solution by intensifying our promotion and marketing effort in hospitals and departments, small promotion conference and national and provincial annual meeting, so as to strive for a new growth in its sales.

Haogan, Lijungai, Shengtai, Zijin, Weikoujia, Kehao, Lingzhihong as well as other featured OTC products should focus on the core vision of "End-users driven, profit driven and price control", accelerate the establishment of agency layout and intensify the efforts in the promotion among consumer groups. We should also continue to host end-user promotion conference and put more emphasis on the follow-up housekeeping works and subsequent sales growth. We will promote direct negotiation, direct supply and direct agency with large-scale drugstores and strive to achieve breakthrough in sales growth of OTC for the year.

We will continue our persistence on products with relatively advantageous features in selling general medicine. Through active restructuring, promoting the sales of high margin products, attach great importance to tender work and achieve sales growth for tender winning products and continuous expansion of the end-use network, we assure sustainable sales and profit growth.

(2) **New Products Development**

Shijiazhuang No. 4 Pharma had obtained the Type 3.3 new drug certificates and production permits for the 2,000ml compound electrocular irrigating solution during the year. Glycine Irrigation Solution 2,000ml and other products are expected to obtain production permits. Our exclusive patented product, Shanhe Koufuye, and other oral liquids products will strive for approval for change of plastic package during the year. The raw materials and preparation for two new Type 3.1 mental and neuropathology drugs, which are under development, have been reported to SFDA and are expected to be approved for clinical research.

Xi'an Lijun Pharmaceutical is expected to obtain production permits for Edaravone raw materials and injection, Glipizide Tablets and the Nalmefene Hydrochloride raw material and injection and Compound Metformin Hydrochloride during the year. It will strive for obtaining the health food permits for Lingzhihong Capsules. Type 1 new drug Compound Alanyl Glutamine Double-layer Tablets will also strive for completing clinical trial application and Type 1 new drug Compound Dexibuprofen Sustained-release Double-layer Tablets is likely to pass the technology evaluation of the National Pharmaceutical Approval Centre. Loratadine Soft Capsule and Shengtai Capsule are closely follow up with the evaluation of the National Pharmaceutical Approval Centre.

3. DEVELOPMENT OUTLOOK *(continued)*

(2) New Products Development *(continued)*

In 2012, no matter how harsh the operation environment and how intense the market competition will be, in view of that the two major subsidiaries of the Group have many products with advantages and characteristics, coupled with many years of experience in marketing management and improving financial positon, we are still full of confidence in our corporate development. With the Group's solid foundation and various strengths, we will be able to overcome the challenges ahead and achieve greater development, bringing fruitful returns to the investors eventually.

Wu Qin
Chairman of the Board

Hong Kong, 23 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the year ended 31 December 2011, the revenue of the Group amounted to approximately HK$2,155,215,000, representing an increase of 9.3% as compared with HK$1,971,657,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2011 is set out as follows:

	2011 *HK$'000*	*%*	2010 HK$'000	%	**Change** *%*
Intravenous Infusion Solution	**1,036,463**	**48.1**	788,904	40.0	31.4
(Including: PP Plastic Bottle Infusion Solution	**386,488**	**17.9**	294,500	14.9	31.2
Non-PVC Soft Bag Infusion Solution)	**366,459**	**17.0**	246,021	12.5	49.0
Antibiotics	**629,355**	**29.2**	744,826	37.8	(15.5)
(Including: Lijunsha	**382,888**	**17.8**	471,362	23.9	(18.8)
Paiqi)	**112,456**	**5.2**	133,014	6.7	(15.5)
Non-antibiotics finished medicines	**375,973**	**17.4**	335,552	17.0	12.0
(Including: Dobesilate	**92,596**	**4.3**	81,971	4.2	13.0
Lixiding	**31,791**	**1.5**	35,510	1.8	(10.5)
Sales of bulk pharmaceuticals	**107,799**	**5.0**	100,654	5.1	7.1
Others	**5,625**	**0.3**	1,721	0.1	227.0
Total	**2,155,215**	**100**	1,971,657	100	9.3

INTRAVENOUS INFUSION SOLUTION

The Group's intravenous infusion solution products were mainly manufactured and sold by Shijiazhuang No. 4 Pharma and there were 3 forms of packing in intravenous infusion products, namely Glasses Bottle, PP Plastic Bottle and Non-PVC Soft Bag.

Revenue of Shijiazhuang No. 4 Pharma for the year ended 31 December 2011 was HK$1,036,463,000 (2010: HK$788,904,000), representing a growth of 31.4% on a year-to-year basis. Among which, sales of intravenous infusion solution products contributed HK$946,420,000 (2010: HK$714,206,000), representing a growth of 32.5% on a year-to-year basis. Among which, sales of Non-PVC Soft Bag infusion solution was HK$366,459,000, representing 38.7% of the total sales of intravenous infusion solution and an increase of 49.0% as compared with last year; sales of PP Plastic Bottle infusion solution was HK$386,488,000, representing 40.8% of the total sales of intravenous infusion solution and an increase of 31.2% as compared with last year; sales of Glasses Bottle infusion solution was HK$193,473,000, representing 20.5% of the total sales of intravenous infusion solution and a increase of 11.4% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the PP Plastic Bottle infusion solution and Non-PVC Soft Bag infusion solution. It is believed that the intravenous infusion solution business will be one of the growth drivers of the Group in the coming years.

ANTIBIOTICS

In 2011, sales of Lijunsha decreased by 18.8% to HK$382,888,000 (2010: HK$471,362,000), sales of Paiqi decreased by 15.5% to HK$112,456,000 (2010: HK$133,014,000) and sales of others antibiotics finished products decreased by 4.6% to HK$134,011,000 (2010: HK$140,450,000), which were due to price reduction for the antibiotics products and volume control by the PRC government. Overall sales of antibiotics finished products decreased by 15.5% to HK$629,355,000 (2010: HK$744,826,000).

The reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 37.8% in 2010 to 29.2% in 2011 and sales proportion of Lijunsha accounted for only 17.8% of the total Group's sales in 2011, comparing to 23.9% in 2010.

NON-ANTIBIOTICS FINISHED PRODUCTS

Thanks to the expanded sales network in small-to-medium sized cities and rural areas and the contribution of similar products sales from Shijiazhuang No. 4 Pharma, sales of the Group's non-antibiotics products increased by 12.0% to HK$375,973,000 (2010: HK$335,552,000). Among which, sales of Dobesilate increased by 13.0% to HK$92,596,000 (2010: HK$81,971,000) and sales of Lixiding decreased by 10.5% to HK$31,791,000 (2010: 35,510,000) due to a price reduction of 23.8% by the PRC government.

SALES OF BULK PHARMACEUTICALS

Export sales of bulk pharmaceuticals amounted to HK$107,799,000 in 2011 (2010: HK$100,654,000), representing an increase of 7.1%.

COST OF SALES

The Group's cost of sales increased by 26.7% from HK$980,031,000 for the year ended 31 December 2010 to HK$1,241,525,000 for the year ended 31 December 2011. The cost of direct materials, direct labour and other costs represented approximately 72.2%, 10.0% and 17.8% of the total cost of sales respectively for the year ended 31 December 2011 while their comparative percentage for 2010 were 73.0%, 10.5% and 16.5% respectively.

GROSS PROFIT MARGIN

Gross profit of the Group in 2011 amounted to HK$913,690,000 (2010: HK$991,626,000), representing a gross profit margin of 42.4%, which was decreased by 7.9 percentage point comparing to that of last year (50.3%). This is mainly due to factors that include price reduction of main products; cost increase (including raw and auxiliary materials and packaging materials, labour and utility charges), and urban maintenance and construction tax and educational surcharge included as production costs.

SELLING AND MARKETING COSTS

For the year ended 31 December 2011, selling and marketing costs amounted to approximately HK$441,342,000 (2010: HK$461,270,000), which mainly consisted of advertising expenses of approximately HK$63,175,000 (2010: HK$67,493,000), sales commission of approximately HK$150,382,000 (2010: HK$183,512,000), salaries expenses of sales and marketing staff of approximately HK$64,737,000 (2010: HK$74,898,000) and transportation cost of approximately HK$96,552,000 (2010: HK$69,985,000).

The decrease of 4.3% in selling and marketing costs in 2011 as compared with that of 2010 was mainly due to the Group's cost control.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to approximately HK$466,783,000 (2010: HK$215,429,000) for the year ended 31 December 2011 which mainly comprised goodwill impairment loss of approximately HK$223,552,000 (2010: Nil), salaries expenses for the administrative staff of approximately HK$91,454,000 (2010: HK$81,989,000), depreciation and amortisation of approximately HK$54,050,000 (2010: HK$47,477,000) and office and rental expenses of approximately HK$10,080,000 (2010: HK$9,409,000).

The increase of 116.7% in general and administrative expenses in 2011 as compared with that of 2010 was mainly due to an impairment loss on the goodwill in respect of the Group's intravenous infusion solution business of HK$223,552,000 in 2011 (2010: Nil) and expansion of the Group's operations.

OPERATING PROFIT

Due to a goodwill impairment loss of HK$223,552,000, the Group's operating profit in 2011 decreased by 96.0%, amounted to HK$13,146,000 (2010: HK$324,993,000) with its operating profit margin (defined as operating profit divided by total sales) decreased from 16.5% to 0.61%.

FINANCE COSTS

The finance costs for the year has decreased to HK$18,111,000 in 2011 (2010: HK$23,852,000). During the year, interest expense on bank borrowings amounted to HK$22,071,000 (2010: HK$23,476,000) and finance costs on discount of bills receivables amounted to HK$343,000 (2010: HK$1,596,000).

INCOME TAX EXPENSE

Both Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") and Shijiazhuang No. 4 Pharma are qualified as new high technology enterprises and entitled to a 15% preferential Mainland China Enterprise Income Tax ("EIT") rate for the years from 2010 to 2012. For the year ended 31 December 2011, the income tax expense amounted to HK$39,183,000 (2010: HK$44,992,000).

LOSS ATTRIBUTABLE TO EQUITY HOLDERS FOR THE YEAR

Loss attributable to equity holders of the Company for the year amounted to HK$41,401,000 (2010: profit attributable to equity holders of the Company HK$260,592,000) with a net loss margin (loss attributable to equity holders of the Company for the year divided by total sales) of 1.9% (2010: net profit margin of 13.2%).

LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2011, the cash and cash equivalents aggregated to HK$257,980,000 (2010: HK$598,911,000), comprising HK$50,688,000 (2010: HK$316,387,000) of cash and cash equivalents denominated in Hong Kong dollars, HK$204,418,000 (2010: HK$280,987,000) in RMB and HK$2,874,000 (2010: HK$1,537,000) in other currencies.

As at 31 December 2011, the Group has pledged bank deposits amounting to HK$4,443,000 (2010: HK$30,531,000) as guarantee of payables for property, plant and equipment and bills payable.

The carrying amounts of the borrowings amounting to HK$416,615,000 (2010: HK$433,146,000) as at 31 December 2011, comprising HK$151,412,000 (2010: HK$80,590,000) of borrowings denominated in Hong Kong dollars and HK$265,203,000 (2010: HK$352,556,000) in RMB.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital) increased from -7.6% as at 31 December 2010 to 6.5% as at 31 December 2011.

Current ratio (defined as current assets divided by current liabilities) decreased from 1.76 as at 31 December 2010 to 1.42 as at 31 December 2011.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and HK dollar. The Group is of the opinion that its exposure to foreign exchange rate risk is limited.

PLEDGE OF ASSETS

As at 31 December 2011, the net book amount of the Group's land use right of HK$50,025,000 (2010: HK$65,449,000), the net book amount of the Group's buildings, plant and machineries of HK$246,470,000 (2010: HK$246,749,000) and bank deposits of HK$4,443,000 (2010: HK$30,531,000) were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payable.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities.

EXCHANGE RATE

As at 2011 and 2010, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2010	0.88048
31 December 2010	0.85093
31 December 2011	0.81070

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Wu Qin（吳秦）, aged 59, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Wu was the chairman of Rejoy Group Limited Liability Company ("Rejoy Group") from October 1998 to August 2011. He has also been the chairman of Xi'an Lijun since November 1999. He is also a director of Prime United Industries Limited ("Prime United"), a controlling shareholder of the Company. Mr. Wu was the general manager of Xi'an Lijun. Mr. Wu has over 30 years of experience in the pharmaceutical industry. He is particularly experienced in the business planning, marketing and enterprise management for pharmaceutical brands. In addition to setting up a number of unique management models, he has also achieved great success in establishing the "Lijunsha" brand, which is one of the prominent "Well-known Trademark in China" in the pharmaceutical industry in the PRC. Mr. Wu graduated from the Open University of Hong Kong with a degree of Master in Business Administration in 2002. He was a deputy to the 10th Standing Committee of the National People's Congress, and was awarded the National Labour Model Award（全國勞動模範）, National May First Labour Medal（全國五一勞動獎章）, International Chinese Commercial Leaders Award（世界華商領袖功勛獎）, Outstanding Chinese Entrepreneurs Award（中國傑出企業領袖）and 100 Most Innovative Chinese Characters Award（中國改革100新鋭人物）. He was also an executive director of Pharmaceutical Administration Association/China Pharmaceutical Association. He also enjoys special subsidy for the year 2002 granted by the State Council of the PRC. He is currently a vice president of Shaanxi Industrial and Economic Federation and Deputy Chairman of the Shaanxi Association of Commerce of the China International Association of Commerce. He is also a senior economist accredited by The Ministry of Personnel of China, the Deputy Chairman of Law and Social Order Committee of the Standing Committee of Shaanxi Province People's Congress and member of Strategies & Advisory Committee of Shaanxi Province.

Mr. Qu Jiguang（曲繼廣）, aged 57, an executive Director, the vice-chairman and the chief executive officer of the Company. Mr. Qu is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has nearly 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress（河北省人大代表）, Executive Committee Member of All-China Federation of Industry and Commerce（全國工商聯執委）, Vice-Chairman of China Pharmaceutical Industry Association（中國化學製藥協會副會長）, Vice-Chairman of Hebei Provincial Federation of Industry and Commerce（河北省工商聯副主席）, Vice-Chairman of Hebei Provincial Association of Enterprise（河北省企業聯合會副會長）, Vice-Chairman of Hebei Pharmaceutical Industry Association（河北省醫藥行業協會副會長）.

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Xie Yunfeng（謝雲峰）, aged 57, an executive Director and is responsible for overall management in daily administration of Xi'an Lijun. Mr. Xie has been a director and the deputy general manager of Xi'an Lijun since November 1999. He was a director of Rejoy Group from August 1999 to May 2004. He has been the chairman of Rejoy Group Limited Liability Company since August 2011. Mr. Xie joined the Group since its establishment in November 1999 and has nearly 30 years of experience in pharmaceutical production. He is also a director of Prime United. Mr. Xie graduated from Party School of the CPC Central Committee majoring in law in 2001. Mr. Xie was awarded the Labour Model of Shaanxi Province and the second session of the honorary title of Outstanding Young Entrepreneurs of Xi'an City.

Mr. Huang Chao（黃朝）, aged 56, an executive Director and is responsible for the sales of pharmaceutical in drugstores of Xi'an Lijun. Mr. Huang has been a director of Xi'an Lijun since November 1999 and had been the deputy chairman of Xi'an Lijun until December 2004. Mr. Huang has been the general manager of Xi'an Lijun from November 1999 to January 2012 and was the deputy chairman of Rejoy Group from August 1999 to September 2005. Mr. Huang joined the Group since its establishment in November 1999 and has over 30 years of experience in pharmaceutical production. He is a director of Prime United. Mr. Huang graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002, he is also a senior engineer accredited by The Ministry of Personnel of China.

Mr. Wang Xianjun（王憲軍）, aged 49, an executive director. Mr. Wang has over 20 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang was also an independent non-executive director of Greater China Holding Limited from July 2002 to August 2005, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

Mr. Duan Wei（段偉）, aged 54, an executive Director and is responsible for sales and human resources functions of Shijiazhuang No. 4 Pharmaceutical Co., Ltd.. He joined No. 1 Pharma as a supervisor in March 1984 and was later promoted as the supervisor of Shijiazhuang Pharmaceutical Group. Mr. Duan has been an executive director and the vice general manager of Shijiazhuang No. 4 Pharma since March 1999 and he has also been an executive director of New Orient, CPCL and CMP. Mr. Duan graduated from Hebei Central Radio and TV University（河北廣播電視大學）and has ample experiences in sales management.

Ms. Zhang Guifu（張桂馥）, aged 52, an executive Director and is responsible for the finance functions of Shijiazhang No. 4 Pharmaceutical Co., Ltd.. Ms. Zhang joined Hebei Yuanzheng Pharmaceutical Company Limited（河北遠征藥業有限公司）as the finance manager in 1991. She has been the finance manager of Shijiazhuang No. 4 Pharma since August 2001 and an executive director of Shijiazhuang No. 4 Pharma since December 2001. She has also been an executive director of New Orient, CPCL and CMP. Ms. Zhang graduated from Hebei Economic Management College（河北經濟管理幹部學院）and has over 28 years of experience in financial control.

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Bao Leyuan (包樂源), aged 54, an executive Director and is currently a director of Rejoy Group Limited Liability Company, Xi'an Lijun Fangyuan Pharmaceutical Co., Ltd. and Shaanxi Lijun Modern Traditional Chinese Medicine Co., Ltd.. Mr. Bao joined Xi'an Lijun Pharmaceutical Co., Ltd., a subsidiary of the Company, as a vice chief accountant since 1999, responsible for the asset management functions of the Group. Mr. Bao has been the Chairman of the Supervisory Board of Rejoy Technology since November 2008. Mr. Bao graduated from Xi'an Radio and Television University in 1986. He is also an accountant in China and has ample experience in financial management.

Ms. Gao Shuping (高淑平), aged 52, an executive Director and is currently a director of New Orient Investments Limited, a direct wholly-owned subsidiary of the Company and a director and vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd., an indirect wholly-owned subsidiary of the Company. Ms. Gao is responsible for implementation of infrastructure projects and land and property management of the Company. Ms. Gao joined Shijiazhuang No. 4 Pharmaceutical Factory in August 1982 and has been the chief officer of technology department, assistant chief engineer and vice general manager. Ms. Gao has been the manager of quality department of Shijiazhuang Pharmaceutical Group Co., Ltd. from January 1998 to January 2002. Ms. Gao took up the post of vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. from January 2002 to December 2004. Afterwards, she served as a director and vice general manager of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. from December 2004, and she was an executive Director of New Orient as well. Ms. Gao has been engaging in the quality management of pharmaceutical production and the technological transformation of pharmaceutical facilities for a long time, and has accumulated profound theoretical and practical experience. Ms. Gao graduated from Hebei Institute of Chemical Technology with a bachelor's degree majored in Chemical Technology. She is a senior engineer accredited by The Ministry of Personnel of the People's Republic of China, and is a practicing pharmacist.

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wang Yibing（王亦兵）, aged 49, an independent non-executive Director. He graduated from Shenyang Pharmaceutical University, majored in pharmacy（瀋陽藥科大學藥學）. He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce（河北省醫藥行業協會）. Mr. Wang joined Heibei Provincial Pharmaceutical Research Centre（河北省藥物研究所）in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine（河北省醫藥管理局綜合經濟處）as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration（河北省食品藥品監督管理局藥品註冊處，藥品安全監管處）. Mr. Wang possesses about 25 years experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun（梁創順）, aged 46, an independent non-executive Director. He is also an independent non-executive director of China National Materials Company Limited (Stock code:1893), China Metal Recycling (Holdings) Limited (Stock code:773) and China Communications Construction Company Limited (Stock code: 1800), companies listed on the Stock Exchange. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

Mr. Chow Kwok Wai（周國偉）, aged 45, was appointed as an independent non-executive Director of the Company on 16 October 2005. Mr. Chow has worked in Pricewaterhouse, which is now known as PricewaterhouseCoopers and accumulated valuable audit experience there. Mr. Chow received his Bachelor of Social Sciences Degree from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member of the Taxation Institute of Hong Kong ("TIHK"). Mr. Chow is also a registered Certified Tax Adviser（註冊稅務師）of the TIHK effective from 7 September 2010. He has over 20 years' of experience in accounting, financial management and corporate finance. Mr. Chow is currently an executive director, a Deputy General Manager and the Qualified Accountant of Silver Grant International Industries Limited (Stock code: 171), a non-executive director of Cinda International Holdings Limited (Stock code: 111) and an independent non-executive director of Youyuan International Holdings Limited (Stock code: 2268), whose shares are listed on the Main Board of the Stock Exchange.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chow Hing Yeung（周興揚）, aged 33, is the qualified accountant, company secretary and chief financial officer of the Company. Mr. Chow graduated from the Chinese University of Hong Kong with a Bachelor's Degree in Business Administration. He has more than ten years of experience in areas of auditing, accounting and financial management. Mr. Chow is a member of the Hong Kong Institute of Certified Public Accountants.

The Board present their report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 9 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2011 is set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 46 to 47.

DIVIDENDS

An interim dividend of HK$0.02 per share was declared on 26 August 2011 and paid on 30 September 2011.

The Directors recommend the payment of a final dividend of HK$0.02 per share which, together with the interim dividend of HK$0.02 per share, will result in total dividends of HK$0.04 (2010: HK$0.04) per share for the year ended 31 December 2011. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 25 May 2012 and payable on 11 June 2012 to shareholders whose names appear on the register of members of the Company at the close of business on 30 May 2012.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 18 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 7 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

Retained earnings of the Company as at 31 December 2011 available for distribution amounted to HK$7,462,000 (2010: HK$60,986,000). The Company's share premium account in the amount of HK$1,351,525,000 (2010: HK$1,371,873,000) is also available for distribution to shareholders, subject to the condition that no distribution or dividend may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 4,050,000 shares in May 2011 and June 2011 which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2011.

During the year, the Company acquired an aggregate of 4,050,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration (including transaction costs) of HK$6,756,518 with a view to benefit shareholders as a whole in enhancing the net assets value and earnings per share of the Company. All of the purchased shares were subsequently cancelled on 30 June 2011.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share	Lower price paid per share	Aggregate consideration
		HK$	*HK$*	*HK$*
30 May 2011	1,150,000	1.68	1.66	1,926,053
31 May 2011	350,000	1.67	1.67	586,850
9 June 2011	2,550,000	1.68	1.60	4,243,615
	4,050,000			6,756,518

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Share Option Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares. The offer for grant of options ("Offer") must be taken up within 28 days from the date of Offer, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option will be determined at the higher of (i) the average closing prices of shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer; and (iii) the nominal value of the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of Offer, subject to the terms and conditions of the Share Option Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares in issue as at the date dealings in the shares first commence on the Stock Exchange unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. The total number of shares issued and to be issued upon exercise of all options granted under the Share Option Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

As at 7 August 2008, the Company granted 100,000,000 share options to directors and senior management of the Group, representing about 4.93% of the issued share capital as at the date immediately before the options were granted. The exercise price was HK$0.7. As at 4 October 2010, all of the share options granted were exercised.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Wu Qin
Mr. Qu Jiguang
Mr. Xie Yunfeng
Mr. Huang Chao
Mr. Wang Xianjun
Mr. Duan Wei
Ms. Zhang Guifu
Mr. Bao Leyuan
Ms. Gao Shuping
Ms. Sun Xinglai (resigned on 29 July 2011)

Non-executive Director

Mr. Liu Zhiyong (resigned on 16 October 2011)

Independent Non-executive Directors

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 87 of the Company's articles of association, at every annual general meeting one-third of the directors for the time being (or if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and every retiring director shall be eligible for re-election. Accordingly, Mr. Wang Xianjun, Mr. Duan Wei, Ms. Gao Shuping and Mr. Bao Leyuan will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions", no contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 14 to 17.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

EMPLOYEES AND REMUNERATION POLICY

The remuneration of the directors is determined by the Board, with reference to the prevailing market practice, the Company's remuneration policy, duties and responsibilities of the Directors and their contribution to the Group.

As at 31 December 2011, the Group had approximately 4,400 employees, most of whom were members of the Group's production team based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs and the remuneration policy of employees is based on industry practice.

The remuneration policy of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for year ended 31 December 2011 was HK$280,855,000 (2010: HK258,991,000). Details of the remuneration of the Directors for the year ended 31 December 2011 are set out in note 31 to the financial statements.

RETIREMENT BENEFIT PLANS

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 8%, respectively, of the employees' basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group also has an early retirement plan. Expenses incurred by the Group in connection with the retirement benefit plans were approximately HK$24,772,000 for the year ended 31 December 2011 (2010: HK$18,120,000).

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 by each of the employee and the Group) on a monthly basis to the fund.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2011, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Beneficial owner	15,420,000	0.63%
Mr. Qu Jiguang	Interest in a controlled corporation *(Note 1)*	571,500,000	23.38%

Note:

1. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 31 December 2011, the Company had been notified of the following interests and short positions, being 5% or more in the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of shares	% of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	641,655,000	26.25%
CPCL *(Note 2)*	Beneficial owner	571,500,000	23.38%
Mr. Qu Jiguang	Interest of controlled corporation *(Note 2)*	571,500,000	23.38%

Notes:

(1) Prime United Industries Limited is held as to about 8.86% by Mr. Wu Qin, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director, as to about 84.73% by Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao who jointly hold such shares on trust for 3,085 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao, the executive Directors, are also directors of Prime United Industries Limited. Xi'an Lijun is a company established in the PRC with limited liability and wholly-owned by the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by State-owned Assets Supervision and Administration Commission of the People's Government of Xian.

(2) CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

MANAGEMENT CONTRACTS

Save as disclosed under the heading "Connected transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the Group purchased less than 30% of its total purchases from its 5 largest suppliers and sold less than 30% of its turnover to its 5 largest customers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions

(1) Distribution of the Group's products by Rejoy Technology Group ("Xi'an Rejoy Technology Investment Co., Ltd. and its subsidiaries, including but not limited to Xi'an Rejoy Packaging Materials Co., Ltd.")

Pursuant to the Master Sale Agreement dated 18 December 2009, the Group agreed to sell and the Rejoy Technology Group agreed to purchase and distribute products of the Group. The Rejoy Technology Group purchases products from the Group and distributes such products to other distributors and end customers. The directors confirmed that the selling prices of the Group's products sold to the Rejoy Technology Group were determined in accordance with the market prices and terms and that the Group charged the Rejoy Technology Group for the products at prices no less favourable than those charged to independent third parties and on terms no less favorable than those the Group can obtain from independent third parties.

Xi'an Rejoy Technology Investment Co. Ltd., the issued share capital of which is held as to 100% by the beneficial shareholders of Prime United Industries Limited, the controlling shareholder of the Company and is accordingly a connected person of the Company.

For the year ended 31 December 2011, there was no sales of Group products to the Rejoy Technology Group (2010: Nil), which did not exceed the annual cap of RMB21,500,000 (2010: RMB21,500,000) prescribed for the year ended 31 December 2011 as disclosed in the announcement dated 21 December 2009.

(2) Purchasing of Raw Materials from Rejoy Technology Group

Pursuant to the Master Purchase Agreement dated 18 December 2009, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group. The prices and terms of the Master Purchase Agreement are as per market and shall be no less favourable than market prices and terms.

The directors confirmed that the Group pays Rejoy Technology Group for the raw materials and packaging materials at prices no less favourable than those paid to independent third parties and on terms no less favourable than those the Group can obtain from other comparable independent third parties. For the year ended 31 December 2011, the total purchase of raw materials and packaging materials from the Rejoy Technology Group was RMB2,473,000 (2010: Nil), which did not exceed the estimated annual cap of RMB5,000,000 (2010: RMB5,000,000) prescribed for the year ended 31 December 2011 as disclosed in the announcement dated 21 December 2009.

CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

The aforesaid continuing connected transactions have been reviewed by independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the respective annual caps disclosed in previous announcements.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions to the Board of Directors. A copy of the auditors' letter has been provided by the Company to The Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date prior to the issue of this annual report, being 23 March 2012, and at all times during the year ended 31 December 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2011.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting of the Company will be held at 2:00 p.m. on 25 May 2012 at Office 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 May 2012 to Friday, 25 May 2012, both dates inclusive, during which period, no transfer of Shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Tuesday, 22 May 2012.

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 30 May 2012.

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 23 March 2012

CORPORATE GOVERNANCE REPORT

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules. During the year, the Company has complied with the applicable Code Provisions set out in the CG Code.

The following summarises the Company's corporate governance practices.

Key Corporate Governance Principles and the Company's Practices

A.1 Board of Directors

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

Four regular board meetings were held for the year ended 31 December 2011 and the attendance was as follows:

		Meetings attended/held	Attendance
Wu Qin		4/4	100%
Qu Jiguang		4/4	100%
Xie Yunfeng		4/4	100%
Huang Chao		4/4	100%
Wang Xianjun		4/4	100%
Duan Wei		4/4	100%
Zhang Guifu		4/4	100%
Bao Leyuan		4/4	100%
Gao Shuping		4/4	100%
Sun Xinglai	(resigned on 29 July 2011)	1/4	25%
Liu Zhiyong	(resigned on 16 October 2011)	0/4	0%
Wang Yibing		4/4	100%
Leung Chong Shun		4/4	100%
Chow Kwok Wai		4/4	100%

All directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting.

Notice of at least 14 days were given of a regular board meeting. For all other board meetings, reasonable notice will be given.

All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of minutes of Board meetings were sent to all directors for their comment and record respectively within 3 business days after the board meeting was held.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

A.1 Board of Directors *(continued)*

The Company has established the policy on obtaining independent professional advice by Directors to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold. Independent non-executive directors who have no material interest in the transaction shall be present at such Board meeting.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. Minutes of board meetings and meetings of board committee are to be kept by a duly appointed secretary of the meeting and such minutes are open for inspection at any reasonable time and on reasonable notice by any Director.

A.2 Chairman and chief executive officer

The Board appointed Mr. Wu Qin as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

The Board appointed Mr. Qu Jiguang as the Chief Executive Officer, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Board also comprises independent non-executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all the Audit Committee members and Remuneration Committee members are independent non-executive directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

The Chairman is responsible for ensuring that Directors are properly briefed on issues arising at Board meetings and receive adequate information, which is complete and reliable, in a timely manner.

A.3 Board composition

The Board comprises nine executive Directors, namely Mr. Wu Qin, Mr. Qu Jiguang, Mr. Xie Yunfeng, Mr. Huang Chao, Mr. Wang Xianjun, Mr. Duan Wei, Ms. Zhang Guifu, Mr. Bao Leyuan and Ms. Gao Shuping, and three independent non-executive Directors, being Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown on pages 14 to 17 under the section headed "Biographical Details of Directors and Senior Management".

There are sufficient numbers of independent non-executive directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

A.3 Board composition *(continued)*

All Directors are expressly identified by categories of executive directors, non-executive director and independent non-executive directors, in all corporate communications that disclose the names of Directors of the Company.

Subsequent to the year, the Company has maintained on its website an updated list of Directors identifying their role and function and whether they are independent non-executive Directors.

There are no financial, business, family and other material or relevant relationships among members of the Board.

A.4 Appointments, re-election and removal

All Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

Also, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Pursuant to Article 87 of the Articles of Association, Mr. Wang Xianjun (an executive Director), Mr. Duan Wei (an executive Director), Ms. Gao Shuping (an executive Director) and Mr. Bao Leyuan (an executive Director) will retire from office by rotation in the forthcoming annual general meeting and being eligible, offer themselves for re-election at the AGM.

Every Director including non-executive director, including those appointed for a specific term, were subject to retirement by rotation at least once every three years.

During the year, the Company had not established a Nomination Committee and retained the functions to the Board. The Directors from time to time identify individual suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether he can add value to the management through his contributions in the relevant strategic business areas and if the appointment results in a strong and diverse Board.

Subsequent to the year, the Board has established a Nomination Committee with all the members being an independent non-executive director. The Nomination Committee is chaired by Mr. Wang Yibing (an independent non-executive Director) and with committee members of Mr. Leung Chong Shun (an independent non-executive Director) and Mr. Chow Kwok Wai (an independent non-executive Director).

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

A.4 Appointments, re-election and removal *(continued)*

The terms of reference of the Nomination Committee include the following specific duties:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer.

A.5 Responsibilities of directors

Every newly appointed Director of the Company received an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and ongoing obligations to be observed by a director. In addition, the package includes materials on the operations and business of the Company. The management of the Company conducted briefing on their responsibilities and obligations under the laws and applicable regulations such as Listing Rules and Companies Ordinance as was necessary.

The functions of independent non-executive Directors include but not limited to the following:

(a) participating in board meetings of the Company to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the audit, remuneration and nomination committees; and

(d) scrutinising the Company's performance in achieving agreed corporate goals and objectives, monitoring the reporting of performance.

Every Director ensures that he can give sufficient time and attention to the affairs of the Company.

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The Directors have confirmed that there were not any noncompliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2011.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

A.6 Supply of and access to information

In respect of regular board and committee meetings, agendas and accompanying board papers were sent in full to all Directors at least 3 days before the intended date of meetings.

The management and the Company Secretary assist the Chairman in establishing the meeting agenda and board papers, providing adequate information in a timely manner to enable the board and committees in making decision to the matter being discussed in the meetings. Each Director may request inclusion of items in the agenda and more information than is volunteered by the management. The Board and each Director may separately and independently access to the Company's senior management and shall receive prompt response.

Minutes of the Board/committees meetings are kept by the Company Secretary and are open for inspection by Directors.

B.1 Remuneration of Directors and senior management

The Board has established a Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them are independent non-executive Directors appointed by the Board.

The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain, and motivate a high calibre team which is essential to the success of the Group.

Two meetings had been held for the Remuneration Committee during the year ended 31 December 2011 and the attendance was as follows:

	Meetings attended/held	**Attendance**
Leung Chong Shun	2/2	100%
Wang Yibing	1/2	50%
Chow Kwok Wai	2/2	100%

The functions specified in Code Provision B1.3 (a) to (f) of the CG Code had been included in the Terms of Reference of the Remuneration Committee, which also explains the role and the authority delegated by the Board.

The Remuneration Committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

B.1 Remuneration of Directors and senior management *(continued)*

The Remuneration Committee will make available on request, its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the Remuneration Committee include the following specific duties:

(a) to make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the remuneration of non-executive directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(f) to consider and approve the grant of share options to eligible participants pursuant to the share option scheme of the Company;

(g) to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(h) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they consistent with contractual terms and are otherwise reasonable and appropriate; and

(i) to ensure that no director or any of its associates is involved in deciding his own remuneration.

The Remuneration Committee will be provided with sufficient resources to discharge its duties.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

B.1 Remuneration of Directors and senior management *(continued)*

The following is a summary of the work of the Remuneration Committee during 2011 regarding the remuneration of Directors:

(i) review of the terms of Director's service contract; and

(ii) review of the remuneration of Directors;

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK$180,000 for each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

Remuneration packages of executive Directors comprise fixed and variable components:

(1) Fixed component – base salary; and

(2) Variable component – annual performance bonus.

Fringe benefits include the provident fund, medical insurance and other miscellaneous benefits.

All the Directors are entitled to participate in the Share Option Scheme.

Emoluments of the Directors are determined by the Board with reference to the prevailing market practice, his duties and responsibilities within the Group and his contribution to the Group.

Details of the remuneration of Directors for the year ended 31 December 2011 are set out in the page 111 of the Annual Report.

C.1 Accountability and audit

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects.

Management of the Company provides such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

C.1 Accountability and audit *(continued)*

The Directors are responsible for overseeing the preparation of accounts of each financial period. In preparing the accounts for the year ended 31 December 2011, the Directors have:

1. selected suitable accounting policies and applied them consistently;

2. approved adoption of all HKFRSs;

3. made judgments and estimates that are prudent and reasonable; and

4. have prepared the accounts on the going concern basis.

Acknowledgement from the Directors of their responsibility for preparing the accounts has been received.

A statement by the auditors about their reporting responsibilities is included in pages 41 to 42 of this annual report under the section headed "Independent Auditor's Report".

During the year, the Company has announced its annual results in a timely manner after the end of the relevant period, as laid down in the Listing Rules; and during the year, the Company has issued annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

C.2 Internal controls

The Board is responsible for reviewing the effectiveness of the system of internal control of the Group which cover all material controls, including financial, operational and compliance controls and risk management functions. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. During the year, the management had conducted a review of the effectiveness of the internal control system of the Group. Such review also covers adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. The report and findings of the review which has covered all material controls, had been submitted to the Board and follow up plan had been adopted. The review did not find any material deficiencies in the internal control system of the Group.

C.3 Audit Committee

The Board establishes formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Audit Committee established by the Company have clear terms of reference.

All the members of the Audit Committee are independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

C.3 Audit Committee *(continued)*

The functions specified in Code Provision C3.3 (a) to (n) of the CG Code had been included in the terms of reference of the Audit Committee. The Terms of Reference of the Audit Committee also explains the role and the authority delegated by the Board.

Two meetings had been convened by the Audit Committee during the year ended 31 December 2011 and the attendance was as follows:

	Meetings attended/held	Attendance
Chow Kwok Wai	2/2	100%
Wang Yibing	1/2	50%
Leung Chong Shun	2/2	100%

Full minutes of audit committee meetings were kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for their comment and records respectively, within 3 business days after the meeting.

Members of the Audit Committee of the Company does not comprise any former partner of the Company's existing audit firm.

The terms of reference of the Audit Committee includes the following duties:

(a) to be primarily responsible for making recommendation to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board and shall identify and make recommendations on any matters where action or improvement is needed;

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

C.3 Audit Committee *(continued)*

(d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee shall focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(e) In regard to (d) above:

(i) members of the committee shall liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and

(ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it shall give due consideration to any matters that have been raised by the Company's staff responsible for accounting and financial reporting function, compliance officer or auditors;

(f) to review the Company's financial controls, internal control and risk management systems;

(g) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion shall include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(h) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(j) to review the financial and accounting policies and practices of the Group;

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

C.3 Audit Committee *(continued)*

(k) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the Board on the matters in the code provisions of Corporate Governance Code contained in Appendix 14 of the Listing Rules (as amended from time to time);

(n) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

(o) to review and monitor the training and continuous professional development of directors and senior management;

(p) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(q) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

(r) to review the Company's compliance with the code and disclosure in the corporate governance report;

(s) to consider other topics, as defined by the Board from time to time;

(t) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

(u) to act as the key representative body for overseeing the Company's relations with the external auditor.

The Audit Committee shall make available on request its terms of reference, explaining its role and the authority delegated to it by the board.

Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a detailed explanation of the Audit Committee's view and the reasons for the Board to have taken such a different view.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

C.3 Audit Committee *(continued)*

The Audit Committee has been provided with sufficient resources to discharge its duties.

PricewaterhouseCoopers had been appointed to be the auditor of the Group. During 2011, total fees of about HK$3,600,000 paid/payable to PricewaterhouseCoopers were wholly related to audit services.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditor of the Group in 2012.

D.1 Delegation by the board

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. The Company review the arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility to the executive management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

D.2 Board committees

The Board has prescribed sufficiently clear terms of reference for the Audit, Remuneration and Nomination Committees.

The terms of reference of the Audit, Remuneration and Nomination Committees require the committees to report back to the Board on their decisions or recommendations.

E.1 Effective communication

The Company uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly the annual and interim reports and quarterly statements. The Company follows a policy of disclosing relevant information to shareholders in a timely manner.

The annual general meeting provides an opportunity for communication between the Board and the Company's shareholders. The Company ensures that shareholders' views are communicated to the Board.

REPORT ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Key Corporate Governance Principles and the Company's Practices *(continued)*

E.1 Effective communication *(continued)*

In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the chairman of the meeting.

The chairman of the Board will attend the annual general meeting and arrange for the chairman of the Audit, Remuneration and Nomination Committees or their members to be available to answer questions at the annual general meeting.

The Company arranges for the notice to shareholders to be sent in the case of annual general meetings at least 21 clear days before the meeting and to be sent at least 14 clear days in the case of all other general meetings.

E.2 Voting by poll

The chairman of a meeting will ensure disclosure in the Company's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in the Listing Rules such that shareholders are familiar with the detailed procedures for conducting poll.

The chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting will demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting will disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

The Company will count all proxy votes and, except where a poll is required, the chairman of a meeting will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded.

The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

(a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

(b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

F. Directors' and Officers' Liability Insurance

The Company has arranged appropriate directors' and officers' liability insurance to indemnify the Directors and senior staff of the Group for their potential liabilities incurred by them in discharging their duties. The Company reviews the insurance coverage for the Directors and the Group's senior staff on an annual basis.

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To the shareholders of
Lijun International Pharmaceutical (Holding) Co., Ltd.
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 119, which comprise the consolidated and company balance sheets as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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.

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AUDITOR'S RESPONSIBILITY *(continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss 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 disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2012

CONSOLIDATED BALANCE SHEET

As at 31 December 2011
(All amounts in HK$ unless otherwise stated)

	Note	As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
ASSETS			
Non-current assets			
Land use rights	6	**220,433**	215,565
Property, plant and equipment	7	**1,444,819**	994,067
Intangible assets	8	**316,896**	551,977
Deferred income tax assets	10	**21,526**	21,200
Available-for-sale financial assets	11	**159**	152
		2,003,833	1,782,961
Current assets			
Inventories	12	**342,318**	298,607
Trade and bills receivables	13	**704,666**	484,968
Financial assets at fair value through profit or loss	14	**2,367**	–
Prepayments, deposits and other receivables	15	**128,933**	176,733
Pledged bank deposits	16	**4,443**	30,531
Cash and cash equivalents	16	**257,980**	598,911
		1,440,707	1,589,750
Total assets		**3,444,540**	3,372,711
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**55,703**	55,905
Reserves	18		
– Proposed final dividend	33	**48,896**	48,977
– Others		**2,191,078**	2,250,237
		2,295,677	2,355,119
Non-controlling interests		**616**	1,178
Total equity		**2,296,293**	2,356,297

CONSOLIDATED BALANCE SHEET

As at 31 December 2011
(All amounts in HK$ unless otherwise stated)

	Note	As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	**86,822**	66,594
Deferred income tax liabilities	*10*	**25,344**	26,250
Deferred revenue	*20*	**10,608**	4,818
Long-term payables	*21*	**10,548**	15,058
		133,322	112,720
Current liabilities			
Borrowings	*19*	**329,793**	366,552
Trade and bills payables	*22*	**259,986**	206,322
Advanced receipts from customers		**17,271**	23,276
Dividends payable		**6,050**	–
Accruals and other payables	*23*	**393,338**	289,832
Income tax payable		**8,487**	17,712
		1,014,925	903,694
Total liabilities		**1,148,247**	1,016,414
Total equity and liabilities		**3,444,540**	3,372,711
Net current assets		**425,782**	686,056
Total assets less current liabilities		**2,429,615**	2,469,017

WU QIN
Director

QU JIGUANG
Director

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

The financial statements on page 43 to 119 were approved by the Board of Directors on 23 March 2012 and were signed on its behalf.

BALANCE SHEET OF THE COMPANY

As at 31 December 2011
(All amounts in HK$ unless otherwise stated)

	Note	As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**1,211**	1,650
Investments in subsidiaries and advance to a subsidiary	9	**1,264,848**	1,206,959
		1,266,059	1,208,609
Current assets			
Dividends receivable		**193,697**	169,434
Prepayments, deposits and other receivables	15	**1,396**	1,436
Amounts due from subsidiaries	9	**28,259**	5,035
Cash and cash equivalents	16	**112,729**	316,688
		336,081	492,593
Total assets		**1,602,140**	1,701,202
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**55,703**	55,905
Reserves	18		
– Proposed final dividend	33	**48,896**	48,977
– Others		**1,483,794**	1,557,585
Total equity		**1,588,393**	1,662,467
LIABILITIES			
Current liabilities			
Borrowings	19	**12,500**	37,500
Accruals and other payables	23	**1,247**	1,235
		13,747	38,735
Total liabilities		**13,747**	38,735
Total equity and liabilities		**1,602,140**	1,701,202
Net current assets		**322,334**	453,858
Total assets less current liabilities		**1,588,393**	1,662,467

WU QIN
Director

QU JIGUANG
Director

The notes on pages 50 to 119 are an integral part of these financial statements.

The financial statements on page 43 to 119 were approved by the Board of Directors on 23 March 2012 and were signed on its behalf.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(All amounts in HK$ unless otherwise stated)

	Note	**2011** **HK$'000**	2010 HK$'000
Revenue	24	**2,155,215**	1,971,657
Cost of sales	26	**(1,241,525)**	(980,031)
Gross profit		**913,690**	991,626
Selling and marketing costs	26	**(441,342)**	(461,270)
General and administrative expenses	26	**(466,783)**	(215,429)
Other gains – net	25	**7,581**	10,066
Operating profit		**13,146**	324,993
Finance income	27	**2,771**	4,540
Finance costs	27	**(18,111)**	(23,852)
Finance costs – net		**(15,340)**	(19,312)
(Loss)/profit before income tax		**(2,194)**	305,681
Income tax expense	28	**(39,183)**	(44,992)
(Loss)/profit for the year		**(41,377)**	260,689
Other comprehensive income:			
Currency translation differences		**86,639**	63,740
Total comprehensive income for the year		**45,262**	324,429
(Loss)/profit attributable to:			
Equity holders of the Company		**(41,401)**	260,592
Non-controlling interests		**24**	97
		(41,377)	260,689

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(All amounts in HK$ unless otherwise stated)

	Note	**2011** ***HK$'000***	2010 *HK$'000*
Total comprehensive income attributable to:			
Equity holders of the Company		**45,195**	324,295
Non-controlling interests		**67**	134
		45,262	324,429
(Losses)/earnings per share for (loss)/profit attributable to the equity holders of the Company (expressed in HK$ per share)			
– Basic	*32*	**(0.017)**	0.113
– Diluted	*32*	**(0.017)**	0.113
Dividends	*33*	**97,792**	96,075

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011
(All amounts in HK$ unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2010	48,894	1,575,882	1,624,776	1,044	1,625,820
Comprehensive income					
Profit for the year	–	260,592	260,592	97	260,689
Other comprehensive income					
Currency translation differences	311	63,392	63,703	37	63,740
Total comprehensive income	311	323,984	324,295	134	324,429
Transactions with equity holders					
Issuance of shares	4,700	439,330	444,030	–	444,030
Exercise of share options	2,000	68,000	70,000	–	70,000
Purchase of treasury shares	–	(13,786)	(13,786)	–	(13,786)
Dividends paid to equity holders of the Company	–	(94,196)	(94,196)	–	(94,196)
Total transactions with equity holders	6,700	399,348	406,048	–	406,048
Balance at 31 December 2010	55,905	2,299,214	2,355,119	1,178	2,356,297
Balance at 1 January 2011	55,905	2,299,214	2,355,119	1,178	2,356,297
Comprehensive income					
Loss for the year	–	(41,401)	(41,401)	24	(41,377)
Other comprehensive income					
Currency translation differences	–	86,596	86,596	43	86,639
Total comprehensive income	–	45,195	45,195	67	45,262
Transactions with equity holders					
Purchase of treasury shares	–	(6,764)	(6,764)	–	(6,764)
Cancellation of treasury shares	(202)	202	–	–	–
Dividends paid to equity holders of the Company	–	(97,873)	(97,873)	–	(97,873)
Disposal of a subsidiary	–	–	–	(1,231)	(1,231)
Contribution from non-controlling interests	–	–	–	602	602
Total transactions with equity holders	(202)	(104,435)	(104,637)	(629)	(105,266)
Balance at 31 December 2011	55,703	2,239,974	2,295,677	616	2,296,293

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011
(All amounts in HK$ unless otherwise stated)

	Note	**2011** **HK$'000**	2010 HK$'000
Cash flows from operating activities			
Cash generated from operations	*34(a)*	**244,422**	360,603
Interest paid		**(22,414)**	(25,072)
Income tax paid		**(50,510)**	(47,724)
Net cash generated from operating activities		**171,498**	287,807
Cash flows from investing activities			
Purchase of land use rights		**–**	(8,452)
Purchase of property, plant and equipment		**(419,831)**	(180,288)
Purchase of intangible assets		**(3,946)**	(244)
Proceeds from sale of land use rights		**–**	4,176
Proceeds from disposals of property, plant and equipment	*34(b)*	**14,166**	6,751
Purchase of financial assets at fair value through profit or loss		**(181,534)**	(89,973)
Proceeds from sale of financial assets at fair value through profit or loss		**175,066**	91,381
Proceeds from disposals of a subsidiary		**2,167**	–
Interest received		**2,771**	4,540
Net cash used in investing activities		**(411,123)**	(172,109)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**–**	444,030
Proceeds from exercise of share options		**–**	70,000
Purchase of treasury shares		**(6,764)**	(13,786)
Proceeds from bank borrowings		**493,985**	342,257
Repayments of bank borrowings		**(525,472)**	(439,244)
Decrease of/(increase in) pledged bank deposits		**26,088**	(21,869)
Dividends paid to equity shareholders of the Company		**(91,823)**	(94,196)
Net cash (used in)/generated from financing activities		**(103,986)**	287,192
Net (decrease)/increase in cash and cash equivalents		**(343,611)**	402,890
Cash and cash equivalents at beginning of the year		**598,911**	184,964
Effect of foreign exchange rate changes		**2,680**	11,057
Cash and cash equivalents at end of the year		**257,980**	598,911

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") are engaged in the research, development, manufacturing and selling of a wide range of finished medicines and bulk pharmaceutical products to hospitals and distributors. The Group has manufacturing plants in Hebei Province and Shaanxi Province, the People's Republic of China ("PRC" or the "Mainland China"), and sells to customers mainly in the Mainland China.

The Company is an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2005.

These consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 23 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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

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

2.1 Basis of preparation *(continued)*

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have a material impact on the Group.

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

  – The name of the government and the nature of their relationship;

  – The nature and amount of any individually significant transactions; and

  – The extent of any collectively-significant transactions qualitatively or quantitatively.

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

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

		Effective date
HKFRS 7	Financial Instruments: Disclosures	1 January 2013
HKFRS 9	Financial Instruments: Classification and measurement	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
HKAS 1	Presentation of financial statements	1 July 2012
HKAS 19	Employee benefits	1 January 2013

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

(a) Business combinations

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

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations (continued)

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

(c) Disposal of subsidiaries

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

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

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

2.4 Foreign currency translation *(continued)*

(b) Transactions and balances *(continued)*

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net'.

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

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

(c) Group companies

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

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

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

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

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

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

2.4 Foreign currency translation *(continued)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.5 Property, plant and equipment

Property, plant and equipments are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

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

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

– Buildings	10-40 years
– Plant and machinery	5-18 years
– Vehicles	5-10 years
– Furniture, fixtures and office equipment	5-10 years

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

2.5 Property, plant and equipment *(continued)*

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

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

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

2.6 Land use rights

All land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights, which are amortised to the income statement on a straight-line basis over the periods of the leases, or when there is impairment, the impairment losses is changed in the income statement.

2.7 Intangible assets

(a) Goodwill

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

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

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

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

2.7 Intangible assets *(continued)*

(b) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

– Trademarks	50 years
– Patents	5-10 years

(c) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 years.

(d) Computer softwares

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific softwares. These costs are amortised over their estimated useful lives (5-10 years).

2.8 Impairment of non-financial assets

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

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

2.9 Financial assets

2.9.1 Classification

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and bill receivables', other receivables in the 'Prepayments, deposits and other receivables', 'pledged bank deposits', and 'cash and cash equivalents' in the balance sheet *(Note 2.13 and 2.14 respectively)*.

(c) Available-for-sale financial assets

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

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

2.9 Financial assets *(continued)*

2.9.2 Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from sales of financial assets.

Financial assets are stated at fair values. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. However, if the range of reasonable fair value estimate is significant and the probabilities of various estimates cannot be reasonably assessed, such financial assets are carried at cost less accumulated impairment losses.

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

2.9 Financial assets *(continued)*

2.9.2 Recognition and measurement *(continued)*

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

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;

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

2.11 Impairment of financial assets *(continued)*

(a) ***Assets carried at amortised cost*** *(continued)*

- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

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

The Group first assesses whether objective evidence of impairment exists.

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

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

2.11 Impairment of financial assets *(continued)*

(a) Assets carried at amortised cost *(continued)*

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

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement.

2.12 Inventories

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

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

In the consolidated statement of cash flow, cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

2.16 Trade and other payables

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

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

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

2.17 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

2.18 Borrowing costs

General and specific 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.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

(a) Current income tax

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

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

2.19 Current and deferred income tax *(continued)*

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

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

2.20 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

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

2.20 Employee benefits *(continued)*

(b) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

(i) Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Defined benefit plan

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to statement of comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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

2.20 Employee benefits *(continued)*

(b) ***Pension obligations*** *(continued)*

(iii) *Other post–retirement benefits*

Some group companies provide post-retirement benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plan. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

(iv) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) ***Share-based compensation***

(i) *Equity-settled share-based payment transactions*

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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

2.20 Employee benefits *(continued)*

(c) Share-based compensation *(continued)*

(ii) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(iii) Social security contributions on share options gains

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

(d) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.22 Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

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

Grants relating to purchases of land use rights and property, plant and equipment are included in non-current liabilities and recognised in the income statement over the life of depreciable assets by way of a reduced depreciation or amortisation charge.

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

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Processing income is recognised when the services are rendered, by reference to the actual service provided as a proportion of the total services to be provided.

(iii) Rental income is recognised over the terms of the leases on a straight-line basis.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method.

(v) Dividend income is recognised when the right to receive payment is established.

(vi) Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Advances and deposits from customers are recognised as liabilities in the financial statements as advanced receipts from customers, when there are future obligations to provide goods and services. They are derecognised upon sales of goods and provision of services as described above.

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

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) As a lessee

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

(b) As a lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

2.25 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

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

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.27 Dividend distributions

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

2.28 Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

2.29 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign currency exchange risk

The Group mainly operates in the Mainland China, with most of its transactions denominated and settled in RMB. The Group is exposed to foreign exchange risk primarily arising from Hong Kong Dollars since certain cash and cash equivalents and borrowings are denominated in Hong Kong Dollars. The Group is also exposed to foreign exchange risk through transactions that are denominated in a currency other than the functional currency of the Company and its subsidiaries.

The Group manages its foreign currency exchange risks by performing regular review and monitoring its foreign currency exposures. It has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

At 31 December 2011, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's profit before tax for the year would have been HK$15,105,000 (31 December 2010: HK$10,473,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents and other receivables, accruals and other payables, and borrowings.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as at fair value through profit or loss. The Group has not hedged its price risk arising from investments in financial assets at fair value through profit or loss.

As the Group's investments in equity of other entitles are publicly traded, and their fair value is determined with reference to quoted market prices.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Cash flow and fair value interest rate risk

Except for its pledged bank deposits and cash at banks totalled HK$261,607,000 as at 31 December 2011 (31 December 2010: HK$628,353,000), which carried a weighted average interest rate of 0.6% (31 December 2010: 1.2%) per annum, the Group has no significant interest-bearing assets.

The Group's interest bearing liabilities are bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At the balance sheet date, if interest rate had been increased/decreased by 0.6 percentage-point and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2011 would decrease/increase by approximately HK$1,961,000 (31 December 2010: 0.6 percentage-point, HK$950,000). This relates primarily to interest expense on bank borrowings.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of its pledged bank deposits, cash and cash equivalents, trade and bills receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

Debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

As at 31 December 2011, 84% (31 December 2010: 91%) of the Group's bank deposits are placed in major financial institutions located in PRC and HK, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers (Note 13). As at 31 December 2011, majority of trade receivables are with customers having an appropriate credit history.

As at 31 December 2011, out of the total trade and bills receivables, 46% (31 December 2010: 39%) are bank acceptance notes, of which the credit risks rest with the acceptance banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the acceptance banks.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities (including contractually committed interest payments) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balance due within 12 months equal their carrying balances, as the impact of discounting is not significant.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) ***Liquidity risk*** *(continued)*

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
At 31 December 2011				
Borrowings	329,793	60,000	26,822	416,615
Interests payments on borrowings	11,915	2,028	907	14,850
Trade and bills payables	259,986	–	–	259,986
Accruals and other payables	206,576	–	–	206,576
	808,270	62,028	27,729	898,027
At 31 December 2010				
Borrowings	366,552	66,594	–	433,146
Interests payments on borrowings	11,771	1,469	–	13,240
Trade and bills payables	206,322	–	–	206,322
Accruals and other payables	102,869	–	–	102,869
	687,514	68,063	–	755,577

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total equity less non-controlling interests. Net borrowings is calculated as total borrowings (including current and non-current borrowings) less pledged bank deposits and cash and cash equivalents.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011	2010
	HK$'000	*HK$'000*
Total borrowings *(Note 19)*	**416,615**	433,146
Less: Cash and cash equivalents *(Note 16)*	**(257,980)**	(598,911)
Net debt	**158,635**	(165,765)
Total equity	**2,296,293**	2,356,297
Total capital	**2,454,928**	2,190,532
Gearing ratio	**6.5%**	(7.6%)

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

As of 31 December 2011, the Group has the fair value of financial instruments with the amount of HK$2,367,000 (31 December 2010: Nil). The fair value of financial assets traded in active markets (such as financial assets at fair value through profit or loss) that were recorded during the year ended 31 December 2011 is based on quoted market prices at the reporting date (level 1).

The carrying value less impairment provision of receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment, land use rights and intangible assets

The Group's management determines the estimated useful lives for its property, plant and equipment, land use rights and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment, land use right and intangible assets of similar nature and functions, or based on value-in-use calculations or market valuations with reference to the estimated periods that the Group intends to derive future economic benefits from the use of intangible assets. It could change significantly as a result of technical innovations, changed in customer taste and competitor actions in response to severe industry cycles. Management will increase the depreciation or amortisation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of property, plant and equipment, land use rights and intangible assets (other than goodwill)

Impairment losses for property, plant and equipment, land use rights and intangible assets are recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amounts, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business, are determined with reference to the best information available at each of the balance sheet date. Changing the assumptions selected by the Group's management in assessing impairment, including the discount rates or the operating and growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in Note 2.7. The recoverable amount of cash-generating unit has been determined based on higher of value-in-use and fair value less costs to sell.

Goodwill is allocated to the intravenous infusion solution segment in the Mainland China, the cash-generating unit (CGU) identified. The Group determined that there was an impairment indication relating to CGU of intravenous infusion solution segment.

The Group measured the value in use and fair value less costs to sell by discounting the future estimated cash flow deriving from CGU. These calculations required the Group to estimate the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

	Value in use	**Fair value less cost to sell**
	HK$'000	*HK$'000*
CGU – intravenous infusion solution segment	667,000	1,264,000

The Group considered that the recoverable amount was the higher of value in use and fair value less costs to sell.

If the estimates in all forecast years had been 5% lower or higher than the management's estimates at 31 December 2011, the Group would have recognised the impairment as follows:

	2011	
	5% Lower	**5% Higher**
	HK$'000	***HK$'000***
Weighted average cost of capital	**127,339**	**308,664**
Discount for lack of marketability	**190,247**	**258,090**
Net working capital	**219,851**	**228,486**
Growth rate	**228,486**	**219,851**
Gross profit margin	**377,740**	**69,364**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to changes in market conditions. The Group's management reassesses the estimates at each balance sheet date.

(e) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. These estimates are based on the credit history of its customers and other debtors and current market condition. The Group's management reassesses the provision at each balance sheet date.

(f) Post-employment benefits obligation

The Group's management reassesses the amount of provision for post-employment benefits obligations at each balance sheet date using the projected unit credit method. Under this method, the determination of the present value of post-employment benefits obligation depends on a number of key assumptions like discount rate and resignation rate. Any changes in these assumptions will impact the carrying amount of post-employment benefits obligations.

(g) Current tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(h) Impairment of the Group's assets

The Group follows the guidance of HKAS 36 to determine whether the Group's assets are impaired. As stated in HKAS 36, the net asset value of an entity that exceeds its market capitalisation is an impairment indicator which would require an estimate of the recoverable amount to be performed. As at 31 December 2011, the Group's market capitalisation amounted to HK$2,176 million approximately, which is lower than the Group's net assets value which is HK$2,296 million. Thus, the Group needs to assess whether its assets are impaired. This assessment requires significant judgments and estimations. In making these judgments and estimations, the Group evaluates and considers both qualitative and quantitative factors that will affect the value-in-use of an asset or a cash-generating units ("CGU") such as the extent of difference between the net assets value and market capitalisation, composition of the Group's assets, results and timing of previous impairment tests.

The Group has performed the impairment test according to HKAS 36 and determines that except for the goodwill and property, plant and equipment, no other assets or CGUs have been impaired. The impairment assessment of goodwill and property, plant and equipment is analysed in Note 8 and Note 7 respectively.

5. SEGMENT INFORMATION – GROUP

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

The board considers the business from product perspective. From a product perspective, the decision-maker assesses the performance of two product segments, namely intravenous infusion solution and antibiotics and others.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of revenue and profit. This measurement is consistent with that in the annual financial statements.

Unallocated operating loss was mainly attributable to corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bill receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. Unallocated assets mainly comprise corporate cash.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated income statement.

5. SEGMENT INFORMATION – GROUP *(continued)*

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2011 is as follows:

	Intravenous infusion solution *HK$'000*	**Antibiotics and others** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Revenue	1,036,463	1,118,752	–	2,155,215
Operating profit/(loss) segment results	174,033	81,620	(242,507)	13,146
Finance income	932	571	1,268	2,771
Finance costs	(10,097)	(7,796)	(218)	(18,111)
Profit/(loss) before income tax	164,868	74,395	(241,457)	(2,194)
Income tax expense	(25,428)	(13,154)	(601)	(39,183)
Profit/(loss) for the year	139,440	61,241	(242,058)	(41,377)

Other segment items included in the consolidated income statement for the year ended 31 December 2011 are as follows:

	Intravenous infusion solution *HK$'000*	**Antibiotics and others** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Amortisation of land use rights	1,840	3,848	–	5,688
Depreciation of property, plant and equipment	67,369	28,205	465	96,039
Amortisation of intangible assets	17,774	1,253	–	19,027
Impairment of goodwill	–	–	223,552	223,552
Impairment of inventories	–	280	–	280
Impairment of property, plant and equipment	–	2,394	–	2,394
Provision for impairment of receivables	107	2,448	–	2,555
Research and development expenses	6,094	10,426	–	16,520

5. SEGMENT INFORMATION – GROUP *(continued)*

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2010 is as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	788,904	1,182,753	–	1,971,657
Operating profit/(loss) segment results	202,319	143,940	(21,266)	324,993
Finance income	562	3,049	929	4,540
Finance costs	(8,844)	(12,696)	(2,312)	(23,852)
Profit/(loss) before income tax	194,037	134,293	(22,649)	305,681
Income tax expense	(28,680)	(16,312)	–	(44,992)
Profit/(loss) for the year	165,357	117,981	(22,649)	260,689

Other segment items included in the consolidated income statement for the year ended 31 December 2010 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amortisation of land use rights	1,652	3,747	–	5,399
Depreciation of property, plant and equipment	55,566	23,758	748	80,072
Amortisation of intangible assets	16,916	1,189	–	18,105
Impairment of inventories	–	708	–	708
Impairment of property, plant and equipment	–	2,169	–	2,169
Provision for/(reversal of) impairment of receivables	254	(1,341)	–	(1,087)
Research and development expenses	3,709	9,513	–	13,222

5. SEGMENT INFORMATION – GROUP *(continued)*

The segment assets and liabilities at 31 December 2011 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total assets	2,074,263	1,254,941	115,336	3,444,540
Total liabilities	814,971	319,529	13,747	1,148,247

The segment assets and liabilities at 31 December 2010 are as follows:

	Intravenous infusion solution *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total assets	1,843,768	1,209,169	319,774	3,372,711
Total liabilities	554,886	422,793	38,735	1,016,414

The total of non-current assets were as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Total non-current assets other than deferred tax assets		
– Mainland China	**1,951,922**	1,760,111
– Hong Kong	**1,211**	1,650
Deferred tax assets	**21,526**	21,200
Total non-current assets	**1,974,659**	1,782,961

The chief operating decision-maker has also determined that no geographical segment information is presented as 100% of the Group's sales and operating profits are derived within the PRC and over 95% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

6. LAND USE RIGHTS – GROUP

	2011	2010
	HK$'000	*HK$'000*
At 1 January		
Cost	**229,049**	217,158
Accumulated amortisation	**(13,484)**	(7,911)
Net book amount	**215,565**	209,247
Year ended 31 December		
Opening net book amount	**215,565**	209,247
Additions	**–**	8,452
Disposals	**–**	(3,986)
Amortisation	**(5,688)**	(5,399)
Exchange differences	**10,556**	7,251
Closing net book amount	**220,433**	215,565
At 31 December		
Cost	**240,416**	229,049
Accumulated amortisation	**(19,983)**	(13,484)
Net book amount	**220,433**	215,565

Land use rights are located in Hebei Province and Shaanxi Province, the Mainland China, and are held on leases of 37 to 50 years from the dates of acquisition.

As at 31 December 2011, the Group's land use rights with net book amount of HK$50,025,000 (31 December 2010: HK$65,449,000) were pledged as collateral for the Group's bank borrowings *(Note 19)*.

Amortisation of land use rights has been included in general and administrative expenses.

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Vehicle HK$'000	Construction-in-progress HK$'000	Total HK$'000
At 1 January 2010						
Cost	348,979	763,970	54,699	49,716	37,880	1,255,244
Accumulated depreciation	(84,831)	(294,709)	(27,192)	(23,911)	–	(430,643)
Impairment losses	–	(1,427)	–	–	–	(1,427)
Net book amount	264,148	467,834	27,507	25,805	37,880	823,174
Year ended 31 December 2010						
Opening net book amount	264,148	467,834	27,507	25,805	37,880	823,174
Additions	14,791	56,635	7,434	5,179	144,569	228,608
Transfers	44,892	3,485	2,978	–	(51,355)	–
Transfer to intangible assets *(Note 8)*	–	–	–	–	(803)	(803)
Disposals	(11)	(5,468)	(39)	(170)	–	(5,688)
Depreciation	(17,533)	(50,370)	(6,580)	(5,589)	–	(80,072)
Impairment	–	(2,169)	–	–	–	(2,169)
Exchange differences	9,905	16,284	1,024	883	2,921	31,017
Closing net book amount	316,192	486,231	32,324	26,108	133,212	994,067
At 31 December 2010						
Cost	414,056	837,766	67,220	56,257	133,212	1,508,511
Accumulated depreciation	(97,864)	(347,851)	(34,896)	(30,149)	–	(510,760)
Impairment losses	–	(3,684)	–	–	–	(3,684)
Net book amount	316,192	486,231	32,324	26,108	133,212	994,067
Year ended 31 December 2011						
Opening net book amount	316,192	486,231	32,324	26,108	133,212	994,067
Additions	35,116	259,841	26,091	6,633	176,735	504,416
Transfers	72,338	14,410	1,142	–	(87,890)	–
Deductions resulting from disposal of a subsidiary	–	–	(44)	–	–	(44)
Disposals	(189)	(9,028)	(2,452)	(2,497)	–	(14,166)
Depreciation	(17,806)	(65,011)	(7,489)	(5,733)	–	(96,039)
Impairment	–	(2,394)	–	–	–	(2,394)
Exchange differences	17,910	29,036	1,966	1,253	8,814	58,979
Closing net book amount	423,561	713,085	51,538	25,764	230,871	1,444,819
At 31 December 2011						
Cost	542,896	1,115,021	90,873	54,950	230,871	2,034,611
Accumulated depreciation	(119,335)	(396,137)	(39,335)	(29,186)	–	(583,993)
Impairment losses	–	(5,799)	–	–	–	(5,799)
Net book amount	423,561	713,085	51,538	25,764	230,871	1,444,819

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

Group *(continued)*

The buildings are located in Hebei Province and Shaanxi Province, the Mainland China.

Construction-in-progress represents buildings under construction and plant and machinery pending installation. The buildings under construction are located in Hebei Province and Shaanxi Province, the Mainland China.

Depreciation expense recognised in the consolidated income statement is analysed as follows:

	2011	2010
	HK$'000	*HK$'000*
Cost of sales	**65,134**	54,269
Selling and marketing costs	**1,570**	1,639
General and administrative expenses	**29,335**	24,164
	96,039	80,072

As at 31 December 2011, buildings, plant and machinery with net book amount of HK$246,470,000 (31 December 2010: HK$246,749,000) were pledged as collateral for the Group's bank borrowings *(Note 19)*.

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

Company

	Furniture, fixtures and office equipment *HK$'000*	**Vehicles** *HK$'000*	**Total** *HK$'000*
At 1 January 2010			
Cost	2,712	2,149	4,861
Accumulated depreciation	(948)	(1,594)	(2,542)
Net book amount	1,764	555	2,319
Opening net book amount	1,764	555	2,319
Addition	12	–	12
Depreciation	(299)	(449)	(748)
Exchange differences	60	7	67
Closing net book amount	1,537	113	1,650
At 31 December 2010			
Cost	2,823	2,227	5,050
Accumulated depreciation	(1,286)	(2,114)	(3,400)
Net book amount	1,537	113	1,650
Year ended 31 December 2011			
Opening net book amount	1,537	113	1,650
Addition	26	–	26
Depreciation	(377)	(88)	(465)
Closing net book amount	1,186	25	1,211
At 31 December 2011			
Cost	2,849	2,227	5,076
Accumulated depreciation	(1,663)	(2,202)	(3,865)
Net book amount	1,186	25	1,211

8. INTANGIBLE ASSETS – GROUP

	Goodwill *HK$'000*	Trademark and patents *HK$'000*	Softwares *HK$'000*	Customer relationships *HK$'000*	Total *HK$'000*
At 1 January 2010					
Cost	456,316	63,064	862	68,531	588,773
Accumulated amortisation	–	(7,421)	(288)	(30,839)	(38,548)
Net book amount	456,316	55,643	574	37,692	550,225
Year ended 31 December 2010					
Opening net book amount	456,316	55,643	574	37,692	550,225
Addition	–	–	244	–	244
Transfer from construction-in-progress *(Note 7)*	–	–	803	–	803
Amortisation	–	(2,542)	(229)	(15,334)	(18,105)
Exchange differences	15,846	1,888	34	1,042	18,810
Closing net book amount	472,162	54,989	1,426	23,400	551,977
At 31 December 2010					
Cost	472,162	65,254	1,957	70,910	610,283
Accumulated amortisation	–	(10,265)	(531)	(47,510)	(58,306)
Net book amount	472,162	54,989	1,426	23,400	551,977
Year ended 31 December 2011					
Opening net book amount	472,162	54,989	1,426	23,400	551,977
Addition	–	3,731	215	–	3,946
Deductions resulting from disposal of a subsidiary	–	(35)	–	–	(35)
Amortisation	–	(2,766)	(283)	(15,978)	(19,027)
Impairment	(223,552)	–	–	–	(223,552)
Exchange differences	–	2,754	68	765	3,587
Closing net book amount	248,610	58,673	1,426	8,187	316,896
At 31 December 2011					
Cost	472,162	71,762	2,274	74,430	620,628
Accumulated amortisation	–	(13,089)	(848)	(66,243)	(80,180)
Impairment losses	(223,552)	–	–	–	(223,552)
Net book amount	248,610	58,673	1,426	8,187	316,896

Amortisation of HK$19,027,000 (2010: HK$18,105,000) is included in general and administrative expenses.

8. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment test of goodwill:

Goodwill is allocated to the intravenous infusion solution segment in the Mainland China, the cash-generating unit (CGU) identified.

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

The key assumptions used for fair value less costs to sell calculations are as follows:

	2011	2010
Gross margin	**35.0%**	45.0%
Growth rate	**3%**	3%
Pre-tax discount rate	**12.6%**	12.0%

Management determined budgeted gross margin based on its expectations for the market development. The growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the operating segment.

Management concluded that the goodwill was impaired by HK$ 223,552,000 as at 31 December 2011, based on the impairment test performed.

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY

	2011 ***HK$'000***	2010 *HK$'000*
Investments in unlisted shares, at cost	**1,248,788**	1,188,687
Advance to a subsidiary – non-current	**16,060**	18,272
	1,264,848	1,206,959

Advance to a subsidiary represents equity funding provided by the Company and is measured in accordance with the Company's accounting policy for investments in subsidiaries. It is unsecured and non-interest bearing.

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY *(continued)*

The following are details of principal subsidiaries, all of which are unlisted, at 31 December 2011:

Name	Place of incorporation and type of legal entity	Principal activities and place of operations	Particulars of issued and fully paid share capital	Interest held	
				2011	2010
New Orient Investments Limited ("New Orient")	Limited liability company incorporated in Samoa	Investment holding company in Hong Kong	USD 1	**100% (Directly held)**	100% (Directly held)
Shijiazhuang No.4 Pharmaceutical Co., Ltd. ("No.4 Pharm")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China	RMB160,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun")	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Shaanxi Province, Mainland China	RMB330,000,000	**100% (Directly held)**	100% (Directly held)
Shenzhen Lijun Pharmaceutical Co., Ltd. ("Shenzhen Lijun")	Limited liability company incorporated in Mainland China	Sale of pharmaceutical products in Mainland China	RMB5,000,000	**–**	68% (Indirectly held)
Hebei Jinmen Pharmaceutical Import & Export Co., Ltd.	Limited liability company incorporated in Mainland China	Trading in Mainland China	RMB1,000,000	**100% (Indirectly held)**	–
Hebei Guolong Pharmaceutical Co., Ltd.	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China	RMB2,000,000	**100% (Indirectly held)**	–
Hebei Guangxiang Pharmaceutical Technology Co., Ltd.	Limited liability company incorporated in Mainland China	Pharmaceutical technology research and development and consulting	RMB3,000,000	**100% (Indirectly held)**	–
Hebei Guangxiang Logistics Co., Ltd.	Limited liability company incorporated in Mainland China	Logistics of pharmaceutical products in Mainland China	RMB3,000,000	**83.33% (Indirectly held)**	–

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2011 (2010: None).

Amounts due from subsidiaries – current

These balances are unsecured, non-interest bearing and without pre-determined repayment terms.

10. DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	2011	2010
	HK$'000	*HK$'000*
Deferred tax assets:		
– to be recovered after more than 12 months	**2,940**	3,539
– to be recovered within 12 months	**18,586**	17,661
	21,526	21,200
Deferred tax liabilities:		
– to be settled after more than 12 months	**22,872**	23,225
– to be settled within 12 months	**2,472**	3,025
	25,344	26,250
Deferred tax liabilities – net	**3,818**	5,050

The gross movements in the deferred income tax account are as follows:

	2011	2010
	HK$'000	*HK$'000*
Beginning of the year	**5,050**	11,437
Credited to the consolidated income statement *(Note 28)*	**(1,432)**	(6,667)
Exchange differences	**200**	280
End of the year	**3,818**	5,050

10. DEFERRED INCOME TAX – GROUP *(continued)*

The movements in deferred tax assets are as follows:

	Accrued of expenses *HK$'000*	Provision for impairments *HK$'000*	Post-employment benefits *HK$'000*	Deductible losses *HK$'000*	Total *HK$'000*
At 1 January 2010	9,446	3,878	3,713	–	17,037
Credited/(charged) to the consolidated income statement	2,118	2,104	(712)	–	3,510
Exchange differences	366	171	116	–	653
At 31 December 2010	11,930	6,153	3,117	–	21,200
(Charged)/credited to the consolidated income statement	(492)	658	(1,238)	363	(709)
Exchange differences	(72)	322	776	9	1,035
At 31 December 2011	11,366	7,133	2,655	372	21,526

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. For the year ended 31 December 2011, the Group has unrecognised tax losses of approximately HK$17,962,000 in 2011 (2010: HK$22,649,000), which can be carried forward against future taxable income.

The movements in deferred tax liabilities are as follows:

	Revaluation of assets on acquisition *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
At 1 January 2010	28,474	–	28,474
Credited to the consolidated income statement	(3,157)	–	(3,157)
Exchange differences	933	–	933
At 31 December 2010	26,250	–	26,250
(Credited)/charged to the consolidated income statement	(2,742)	601	(2,141)
Exchange differences	1,235	–	1,235
At 31 December 2011	24,743	601	25,344

As at 31 December 2011, deferred income tax liabilities of HK$58,750,000 (31 December 2010: HK$50,316,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled HK$773,434,000 at 31 December 2011 (31 December 2010: HK$604,764,000).

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2011 **HK$'000**	2010 HK$'000
Beginning of the year	**152**	147
Exchange differences	**7**	5
End of the year	**159**	152

As at 31 December 2011, available-for-sale financial asset amounting to HK$159,000 (31 December 2010: HK$152,000) represents a 14.37% equity interest in Xi'an Lijun Transportation Co., Ltd., which is an unlisted company. Since the range of reasonable fair value estimate is significant and the probabilities of various estimates cannot be reasonably assessed, the available-for-sale financial asset is carried at cost less accumulated impairment losses.

12. INVENTORIES – GROUP

	2011 **HK$'000**	2010 HK$'000
Raw materials	**178,578**	144,283
Work in progress	**33,993**	17,944
Finished goods	**129,747**	136,380
	342,318	298,607

The Group recorded an inventory write-down of HK$280,000 during the year ended 31 December 2011 (2010: reversal of inventory write-down of HK$708,000). The provision has been included in cost of sales.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$904,848,000 (2010: HK$715,233,000).

13. TRADE AND BILLS RECEIVABLES – GROUP

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**390,520**	314,604
Bills receivable	**334,491**	187,820
Less: Provision for impairment	**(20,345)**	(17,456)
	704,666	484,968

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

The Group generally requires its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**627,850**	441,976
4 to 6 months	**29,746**	28,462
7 to 12 months	**34,451**	9,000
1 to 2 years	**15,380**	9,212
2 to 3 years	**3,900**	9,808
More than 3 years	**13,684**	3,966
	725,011	502,424

As at 31 December 2011, past-due trade and bills receivables amounting to approximately HK$97,161,000 (31 December 2010: HK$60,448,000) were assessed for impairment and provision of HK$20,345,000 (31 December 2010: HK$17,456,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year. Collateral or other credit enhancement held by the Group have been considered when determining the impairment provision.

13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The ageing of individually impaired receivables and an estimate of the fair value of the collateral and other credit enhancement are as follows:

	2011 *HK$'000*	2010 *HK$'000*
4 to 6 months	**–**	–
7 to 12 months	**–**	–
1 to 2 years	**15,380**	9,212
2 to 3 years	**3,900**	9,808
More than 3 years	**13,684**	3,966
	32,964	22,986
Less: Expected recovery	**(12,619)**	(8,695)
Impairment	**20,345**	14,291

Movements of provision for impairment of trade receivables are as follows:

	2011 *HK$'000*	2010 *HK$'000*
Beginning of the year	**17,456**	18,338
Provision for/(Reversal of) impairment	**1,974**	(1,493)
Exchange differences	**915**	611
End of the year	**20,345**	17,456

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

The Group's trade receivables were denominated in the following currencies:

	2011 *HK$'000*	2010 *HK$'000*
RMB	**709,343**	487,249
USD	**15,668**	15,175
	725,011	502,424

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

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2011	2010
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities – the Mainland China	**2,367**	–

The fair values of equity securities are based on their closing bid prices.

Changes in fair value of financial assets at fair value through profit or loss are recorded in 'other gains – net'.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due from the agent companies *(Note 23)*	**84,234**	94,429	**–**	–
Prepayments for purchases of inventories	**19,861**	30,108	**–**	–
Prepayments for purchases of machineries	**606**	16,461	**–**	–
Prepaid advertising costs	**9,859**	10,855	**–**	–
Amounts due from related parties *(Note 35(c))*	**288**	11,430	**–**	–
Staff advances	**4,922**	6,348	**–**	–
Prepaid insurance costs	**1,029**	980	**–**	–
Deposits	**3,315**	1,662	**1,396**	1,436
Other receivables	**4,819**	4,460	**–**	–
	128,933	176,733	**1,396**	1,436

According to the relevant PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from their share disposal (through the agent companies). In this regard, HK$84,234,000 (31 December 2010: HK$94,429,000) receivables and the same amount of payables *(Note 23)* relating to PRC individual income taxes in total have been recorded in the consolidated financial statements.

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Pledged bank deposits	**4,443**	30,531	**–**	–
Cash at bank and in hand	**257,980**	598,911	**112,729**	316,688
	262,423	629,442	**112,729**	316,688

Pledged bank deposits are pledged for:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payable for property,plant and equipment *(Note 23)*	**740**	–	**–**	–
Bills payable	**3,703**	30,531	**–**	–
	4,443	30,531	**–**	–

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash at bank.

Pledged bank deposits and cash at bank and in hand were denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**208,861**	311,518	**61,769**	10
HK$	**50,688**	316,387	**50,649**	316,368
USD	**2,874**	1,537	**311**	310
	262,423	629,442	**112,729**	316,688

The interest bearing bank deposits (included in pledged bank deposits and cash at bank) carried a weighted average interest rate of 0.6% (2010: 1.2%) per annum for the year ended 31 December 2011. These deposits had maturity of one month at inception (31 December 2010: six months), other than those without pre-determined maturity terms.

The Group's pledged bank deposits and cash at bank denominated in RMB were deposited with banks in the Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

17. SHARE CAPITAL

	Number of shares *'000*	Ordinary shares *HK$'000*
Authorised		
At 31 December 2011 and 2010 (ordinary shares of HK$0.02 each)	10,000,000	200,000
Issued and fully paid up		
At 1 January 2010 (ordinary shares of HK$0.02 each)	2,119,904	48,894
Issuance of shares – placing of shares	235,000	4,700
Issuance of shares – exercise of share options	100,000	2,000
Currency translation differences	–	311
At 31 December 2010 (ordinary shares of HK$0.02 each)	2,454,904	55,905
Cancellation of shares	(10,090)	(202)
At 31 December 2011 (ordinary shares of HK$0.02 each)	2,444,814	55,703

The Company acquired 6,040,000 of its own shares through the Stock Exchange in a period from 28 December 2010 to 31 December 2010. The consideration for the acquisition of those shares was HK$13,786,000 and has been deducted from retained earnings within reserve *(Note 18)*. The shares are held as 'treasury shares'. All shares issued by the Company were fully paid. The Company subsequently cancelled those 6,040,000 treasury shares on 14 January 2011.

The Company acquired 4,050,000 of its own shares through the Stock Exchange in a period from 30 May 2011 to 9 June 2011. The consideration for the acquisition of those shares was HK$6,764,000. All shares issued by the Company were fully paid. The Company cancelled 4,050,000 shares on 30 June 2011.

18. RESERVES

Group

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserve *HK$'000*	Share-based payment reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2010	842,176	175,547	139,555	15,308	403,296	1,575,882
Issue of shares						
– placing of shares	439,330	–	–	–	–	439,330
Exercise of share options	83,346	–	–	(15,346)	–	68,000
Purchase of treasury shares	–	–	–	–	(13,786)	(13,786)
Profit for the year	–	–	–	–	260,592	260,592
Dividends paid to equity holders of the Company	–	–	–	–	(94,196)	(94,196)
Transfer to statutory reserve	–	–	28,792	–	(28,792)	–
Currency translation differences	7,021	1,123	4,894	38	50,316	63,392
At 31 December 2010	1,371,873	176,670	173,241	–	577,430	2,299,214
Cancellation of shares	(20,348)	–	–	–	20,550	202
Purchase of treasury shares	–	–	–	–	(6,764)	(6,764)
Loss for the year	–	–	–	–	(41,401)	(41,401)
Dividends paid to equity holders of the Company	–	–	–	–	(97,873)	(97,873)
Transfer to statutory reserve	–	–	20,608	–	(20,608)	–
Currency translation differences	–	149	8,598	–	77,849	86,596
At 31 December 2011	1,351,525	176,819	202,447	–	509,183	2,239,974

18. RESERVES *(continued)*

Group *(continued)*

As stipulated by regulations in the Mainland China and the Articles of Association of the Company's subsidiaries established in the Mainland China, the subsidiaries established in the Mainland China are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to statutory surplus reserve fund before distributing their profit. When the balance of such reserve reaches 50% of each subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

Company

	Share premium	**Capital reserve**	**Share-based payment reserve**	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	842,176	172,678	15,308	47,497	1,077,659
Issue of shares					
– placing of shares	439,330	–	–	–	439,330
Exercise of share options	83,346	–	(15,346)	–	68,000
Purchase of treasury shares	–	–	–	(13,786)	(13,786)
Profit for the year	–	–	–	121,192	121,192
Dividends paid to equity holders of the Company	–	–	–	(94,196)	(94,196)
Currency translation differences	7,021	1,025	38	279	8,363
At 31 December 2010	1,371,873	173,703	–	60,986	1,606,562
Cancellation of shares	(20,348)	–	–	20,550	202
Purchase of shares	–	–	–	(6,764)	(6,764)
Profit for the year	–	–	–	30,563	30,563
Dividends paid to equity holders of the Company	–	–	–	(97,873)	(97,873)
At 31 December 2011	1,351,525	173,703	–	7,462	1,532,690

19. BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current				
Non-current portion of long-term bank borrowings	**86,822**	66,594	**–**	–
Current				
Current portion of long-term bank borrowings	**76,760**	35,256	**–**	–
Short-term bank borrowings	**253,033**	331,296	**12,500**	37,500
	329,793	366,552	**12,500**	37,500
Total borrowings	**416,615**	433,146	**12,500**	37,500
Representing:				
Unsecured	**129,683**	213,777	**12,500**	37,500
Secured (i)	**264,842**	176,278	**–**	–
Guaranteed (ii)	**22,090**	43,091	**–**	–
	416,615	433,146	**12,500**	37,500

(i) As at 31 December 2011, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK$50,025,000 (31 December 2010: HK$65,449,000), and the Group's buildings, plant and machinery with a net book amount of HK$246,470,000 (31 December 2010: HK$246,749,000).

(ii) As at 31 December 2011 and 2010, certain of the Group's bank borrowings were guaranteed by Xi'an Lijun Pharmaceutical Co., Ltd., a wholly owned subsidiary of the Company.

19. BORROWINGS *(continued)*

As at 31 December 2011, the Group's borrowings were repayable as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**329,793**	366,552	**12,500**	37,500
Between 1 and 2 years	**60,000**	66,594	**–**	–
Between 2 and 5 years	**26,822**	–	**–**	–
	416,615	433,146	**12,500**	37,500

The borrowings were denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**265,203**	352,556	**–**	–
HK$	**151,412**	80,590	**12,500**	37,500
	416,615	433,146	**12,500**	37,500

The effective interest rates (per annum) at the balance sheet date were as follows:

	2011		2010	
	HK$	***RMB***	*HK$*	*RMB*
Bank borrowings	**3.4%**	**5.4%**	3.3%	5.5%

The fair values of short-term borrowings approximate their carrying amounts. The carrying amounts and fair values of non-current borrowings are as follows:

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings	**86,822**	66,594	**81,746**	64,802	**–**	–	**–**	–

20. DEFERRED REVENUE – GROUP

Government grant received from a municipal government in connection with the Group's development of a high technology pharmaceutical laboratory and plant is deferred and will be recognised in income statement in due course when the development progresses.

Movements of deferred revenue are as follows:

	2011	2010
	HK$'000	*HK$'000*
Beginning of the year	**4,818**	4,657
Current year additions	**5,416**	–
Exchange differences	**374**	161
End of the year	**10,608**	4,818

21. LONG-TERM PAYABLES – GROUP

Long-term payables represent the present value of the Group's obligations for post-employment benefits. The maturity profile of the long-term payables is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 1 year	**673**	1,435
Between 1 to 2 years	**561**	1,050
Between 2 to 5 years	**1,323**	2,606
More than 5 years	**8,664**	11,402
	11,221	16,493
Less: Current portion included in current liabilities *(Note 23)*	**(673)**	(1,435)
	10,548	15,058

21. LONG-TERM PAYABLES – GROUP *(continued)*

The movements of post-employment benefits recognised in the balance sheet is as follows:

	2011	2010
	HK$'000	*HK$'000*
Beginning of the year	**16,493**	17,186
Total expense, included in staff cost		
– Current service cost	**124**	1,157
– Curtailments *(Note (a))*	**(6,769)**	–
– Interest cost	**956**	659
– Actuarial gain	**2,910**	(109)
Contribution paid	**(3,311)**	(3,377)
Exchange differences	**818**	977
End of the year	**11,221**	16,493

The above obligations were determined by the Group's management using the projected unit credit method. Discount rate and resignation rate adopted are as follows:

	2011	2010
Discount rate	**4.0%**	4.2%
Annual resignation rate	**2.7%**	2.7%

(a) Compensation for termination benefit is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation by the employee, entered into an agreement with the employee specifying the terms, and advised the individual employee of the specific terms. In October 2011, the Group revised the terms and recalculated the constructive obligation. As a result, HK$6,769,000 is credited into the consolidated income statement.

Detail of the retirement benefits of the Group are disclosed in Note 30.

22. TRADE AND BILLS PAYABLES – GROUP

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**222,981**	175,791
Bills payable	**37,005**	30,531
	259,986	206,322

Credit terms for trade and bills payables range from 90 to 180 days. The ageing analysis of the trade and bills payables is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**195,371**	170,213
4 to 6 months	**25,817**	21,521
7 to 12 months	**23,163**	9,723
1 to 3 years	**14,474**	3,556
More than 3 years	**1,161**	1,309
	259,986	206,322

The Group's trade and bills payables were denominated in RMB.

23. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Withholding individual income tax payables *(Note 15)*	**84,234**	94,429	**–**	–
Payables for purchase of property, plant and equipment	**178,495**	74,339	**–**	–
Accrued sales commission	**52,453**	57,689	**–**	–
Payables for advertising expense	**7,811**	14,250	**–**	–
Value added tax payable	**10,593**	10,609	**–**	–
Other taxes payables	**10,672**	9,362	**–**	–
Welfare payables	**10,006**	9,029	**–**	–
Accrued salaries and wages	**18,804**	5,844	**1,170**	1,170
Professional fee payables	**3,040**	1,520	**–**	–
Current portion of long-term payables *(Note 21)*	**673**	1,435	**–**	–
Others	**16,557**	11,326	**77**	65
	393,338	289,832	**1,247**	1,235

As at 31 December 2011, the Group's bank deposits with amount of HK$740,000 (31 December 2010: Nil) were pledged as collateral for the payables for purchase of property, plant and equipment.

24. REVENUE – GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products.

Revenue recognised is as follows:

	2011	2010
	HK$'000	*HK$'000*
Revenue:		
– Sales of pharmaceutical products	**2,137,748**	1,963,614
– Sales of raw materials and by products	**4,421**	993
– Processing income	**7,359**	5,055
– Rental income	**2,076**	1,995
– Royalty income *(Note 35(b))*	**3,611**	–
	2,155,215	1,971,657

25. OTHER GAINS – NET – GROUP

	2011 *HK$'000*	2010 *HK$'000*
(Loss)/gain on disposal of financial assets at fair value through profit or loss	**(3,580)**	1,321
Loss on disposal of a subsidiary	**(449)**	–
Subsidy income	**12,131**	8,745
Change in fair value of financial assets at fair value through profit or loss	**(521)**	–
	7,581	10,066

26. EXPENSE BY NATURE – GROUP

	2011 *HK$'000*	2010 *HK$'000*
Raw materials and consumables used	**907,855**	749,899
Changes in inventories of finished goods and work in progress	**(3,007)**	(34,666)
Staff costs		
– Wages and salaries	**220,318**	202,892
– Pension costs	**24,772**	18,120
– Welfare expenses	**35,765**	37,979
Provision for impairment of goodwill	**223,552**	–
Sales commission	**150,382**	183,512
Utility expenses	**124,060**	91,604
Advertising expenses	**63,175**	67,493
Travelling, meeting and entertainment expenses	**56,193**	58,583
Operating leases rental expenses	**3,894**	3,689
Research and development expenses	**16,520**	13,222
Depreciation of property, plant and equipment	**96,039**	80,072
Write-down of inventories to their net realisable value	**280**	708
Write-down/(reversal of) impairment of receivables	**2,555**	(1,087)
Provision for impairment of property, plant and equipment	**2,394**	2,169
Amortisation of land use rights	**5,688**	5,399
Amortisation of intangible assets	**19,027**	18,105
Auditors' remuneration	**3,600**	3,000
Gain on sales of land use rights	**–**	(190)
Gain on disposals of property, plant and equipment	**–**	(1,063)
Transportation expenses	**102,702**	74,619
Tax expenses	**28,129**	9,306
Others	**65,757**	73,365
Total cost of sales, selling and marketing costs and general and administrative expenses	**2,149,650**	1,656,730

27. FINANCE INCOME AND COSTS – GROUP

	2011	2010
	HK$'000	*HK$'000*
Finance income – Interest income on bank deposits	**2,771**	4,540
Finance costs		
– Interest expense of bank borrowings wholly repayable within five years	**22,072**	23,476
– Discount of bills receivable	**343**	1,596
– Net exchange gain	**(4,304)**	(1,220)
	18,111	23,852

28. INCOME TAX EXPENSE – GROUP

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

The Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd., the wholly owned subsidiaries of the Company, established and operate in Mainland China are subject to Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.

For the year ended 31 December 2011 and 2010, both subsidiaries are qualified as high new tech enterprises and entitled to a 15% preferential CIT rate.

The amounts of taxation charged to the consolidated income statement:

	2011	2010
	HK$'000	*HK$'000*
Current income taxation – Mainland China CIT	**40,615**	51,659
Deferred taxation *(Note 10)*	**(1,432)**	(6,667)
	39,183	44,992

28. INCOME TAX EXPENSE – GROUP *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable CIT rate as follows:

	2011 *HK$'000*	2010 *HK$'000*
(Loss)/profit before income tax	**(2,194)**	305,681
Tax calculated at the domestic tax rate of 15% (2010: 15%) applicable to the subsidiaries	**(329)**	45,852
Impairment loss on goodwill for which no deferred tax assets was recognised	**33,533**	–
Unrecognised tax losses	**3,286**	3,398
Tax exemption and reduction	**(687)**	(2,911)
Remeasurement of deferred tax – change in income tax rate	**1,157**	(1,874)
Expenses not deductible	**2,223**	527
Tax expense	**39,183**	44,992
Effective tax rate	**–**	14.7%

29. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$30,563,000 (2010: HK$121,192,000).

30. RETIREMENT BENEFITS – GROUP

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,000 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in the Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. Furthermore, the Group pays monthly allowance to certain old retired persons.

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP

(a) Directors' emoluments

The remuneration of each director of the Company is set out below:

2011

Name	Fees *HK$'000*	Salaries *HK$'000*	Other benefits *HK$'000*	Pension *HK$'000*	Total *HK$'000*
Executive directors					
Mr. Wu Qin	–	3,000	39	24	3,063
Mr. Qu Jiguang	–	2,684	19	35	2,738
Mr. Xie Yunfeng	–	600	39	12	651
Mr. Huang Chao	–	600	39	12	651
Ms. Sun Xinglai	–	1,014	39	7	1,060
Mr. Wang Xianjun	–	1,020	480	12	1,512
Mr. Duan Wei	–	600	16	23	639
Ms. Zhang Guifu	–	300	16	23	339
Mr. Bao Leyuan	–	300	39	11	350
Ms. Gao Shuping	–	500	16	23	539
	–	10,618	742	182	11,542
Non-executive director					
Mr. Liu Zhiyong	50	–	–	–	50
Independent non-executive directors					
Mr. Wang Yibing	180	–	–	–	180
Mr. Leung Chong Shun	180	–	–	–	180
Mr. Chow Kwok Wai	180	–	–	–	180
	540	–	–	–	540
	590	10,618	742	182	12,132

30. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(continued)*

(a) Directors' emoluments *(continued)*

2010

Name	Fees	Salaries	Other benefits	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Wu Qin	–	3,000	33	37	3,070
Mr. Qu Jiguang	–	2,600	14	32	2,646
Mr. Xie Yunfeng	–	600	34	13	647
Mr. Huang Chao	–	600	33	24	657
Ms.Sun Xinglai	–	764	76	12	852
Mr. Wang Xianjun	–	1,102	698	12	1,812
Mr. Duan Wei	–	600	12	20	632
Ms. Zhang Guifu	–	300	12	20	332
Mr. Bao Leyuan	–	300	33	13	346
Ms. Gao Shuping	–	500	11	20	531
	–	10,366	956	203	11,525
Non-executive director					
Mr. Liu Zhiyong	60	–	–	–	60
Independent non-executive directors					
Mr. Wang Yibing	180	–	–	–	180
Mr. Leung Chong Shun	180	–	–	–	180
Mr. Chow Kwok Wai	180	–	–	–	180
	540	–	–	–	540
	600	10,366	956	203	12,125

No directors waived any emoluments during the year ended 31 December 2011 (2010: Nil).

31. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2010: four) directors whose emoluments are reflected in the analysis presented above.

32. (LOSSES)/EARNINGS PER SHARE – GROUP

(a) Basic

Basic (losses)/earnings per share are calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011 *HK$'000*	2010 *HK$'000*
(Loss)/profit attributable to equity holders of the Company	**(41,401)**	260,592
Weighted average number of ordinary shares in issue (thousands)	**2,446,490**	2,312,006
Basic (losses)/earnings per share (HK$ per share)	**(0.017)**	0.113

32. (LOSSES)/EARNINGS PER SHARE – GROUP *(continued)*

(b) Diluted

Diluted earnings per share is calculated after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Since the Company has no category of dilutive potential ordinary shares at 31 December 2011 and 2010, the diluted earnings per share is the same as basic earnings per share.

	2011	2010
	HK$'000	*HK$'000*
(Loss)/profit used to determine diluted earnings per share	**(41,401)**	260,592
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,446,490**	2,312,006
Diluted (losses)/earnings per share (HK$ per share)	**(0.017)**	0.113

33. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Interim dividend of HK$ 0.02 (2010: HK$ 0.02) per ordinary share	**48,896**	47,098
Proposed final dividend of HK$ 0.02 (2010: HK$ 0.02) per ordinary share	**48,896**	48,977
	97,792	96,075

The proposed final dividend in respect of the year ended 31 December 2011 of HK$ 0.02 (2010: HK$0.02) per ordinary share, amounting to a total dividend of HK$48,896,000 calculated based on the 2,444,814,000 ordinary shares (2010: 2,448,864,000 ordinary shares after issuance of placing share) is subject to the approval of the forthcoming Annual General Meeting of the Company. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings and share premium for the year ending 31 December 2012.

34. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of cash generated from operations

	2011 *HK$'000*	2010 *HK$'000*
(Loss)/profit before income tax	**(2,194)**	305,681
Provision for loss/(reversal of impairment) of receivables	**2,555**	(1,087)
Write-down of inventories to their net realisable value	**280**	708
Provision for impairment of property, plant and equipment	**2,394**	2,169
Depreciation of property, plant and equipment	**96,039**	80,072
Provision for impairment of goodwill	**223,552**	–
Gain on sale of land use rights	**–**	(190)
Gain on disposal of property, plant and equipment	**–**	(1,063)
Loss on disposal of a subsidiary	**449**	–
Amortisation of land use rights	**5,688**	5,399
Amortisation of intangible assets	**19,027**	18,105
Loss/(gain) on disposal of financial assets at fair value through profit	**3,580**	(1,321)
Change in fair value of financial assets at fair value through profit or loss	**521**	–
Interest income	**(2,771)**	(4,540)
Interest expenses	**18,111**	23,852
Operating profit before working capital changes	**370,042**	427,785
Changes in working capital:		
Increase in inventories	**(30,519)**	(60,929)
Increase in trade and bills receivables	**(194,085)**	(60,079)
Decrease/(Increase) in prepayments, deposits and other receivables	**99,528**	(103,757)
Increase in trade and bills payables	**42,817**	56,402
(Decrease)/Increase in advance receipts from customers	**(6,986)**	6,537
(Decrease)/Increase in accruals and other payables	**(90,500)**	94,644
Net cash inflow generated from operations	**190,297**	360,603

34. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Proceeds from disposals of property, plant and equipment

	2011	2010
	HK$'000	*HK$'000*
Net book amount disposed *(Note 7)*	**14,166**	5,688
Gain on disposal of property, plant and equipment	**–**	1,063
Proceeds from disposals of property, plant and equipment, net of transaction costs	**14,166**	6,751

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) The directors are of the view that the following companies are related parties of the Group:

Name	**Relationship**
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 26.25% interest in the Company as at 31 December 2011
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	An entity significantly influenced by certain key management personnel of the Group

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(b) Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	2011 *HK$'000*	2010 *HK$'000*
Purchasing of raw materials and packaging materials from	Rejoy Packaging	**2,977**	–
Sales of finished goods to	Rejoy Medicine	**8,599**	13,935
Provision of utilities from	Xi'an Pharmacy Factory	**–**	47,347
Payment of administrative costs to	Xi'an Pharmacy Factory	**–**	3,453
Royalty income	Rejoy Real Estate	**3,611**	–
Purchasing of property, plant and equipment	Xi'an Pharmacy Factory	**25,451**	–
Lease of office premises to	Rejoy Group	**241**	231
	Rejoy Packaging	**72**	69
		313	300

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

(c) The Group had the following significant balances with related parties:

	2011 *HK$'000*	2010 *HK$'000*
Amounts due from related parties, included in trade receivables – Rejoy Medicine	**6,788**	6,636

35. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(c) The Group had the following significant balances with related parties: *(continued)*

	2011	2010
	HK$'000	*HK$'000*
Amounts due from related parties, included in other receivables		
– Xi'an Pharmacy Factory	**–**	11,418
– Rejoy Packaging	**17**	12
– Rejoy Group	**271**	–
	288	11,430

	2011	2010
	HK$'000	*HK$'000*
Amounts due to related parties, included in trade payables		
– Rejoy Group	**797**	–
– Rejoy Packaging	**244**	–
	1,041	–

The related party balances are unsecured, interest-free and have no pre-determined terms of repayment.

(d) Key management compensation

	2011	2010
	HK$'000	*HK$'000*
Salaries, bonus and allowances	**12,638**	12,747
Pension	**194**	215
	12,832	12,962

36. COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet dates contracted but not yet provided for is as follows:

	2011 *HK$'000*	2010 *HK$'000*
– Plant and machineries	**5,935**	49,055

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of office premises in Mainland China and Hong Kong under non-cancellable operating leases are payable as follows:

	2011 *HK$'000*	2010 *HK$'000*
Not later than one year	**2,882**	494
Later than one year and not later than five years	**1,730**	1,454
More than five years	**7,751**	7,385
	12,363	9,333

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2007 *HK$'000* (Audited)	2008 *HK$'000* (Audited)	2009 *HK$'000* (Audited)	2010 *HK$'000* (Audited)	**2011** ***HK$'000*** **(Audited)**
RESULTS					
Turnover	1,139,431	1,591,028	1,739,628	1,971,657	**2,155,215**
(Loss)/profit before income tax	132,002	93,282	240,997	305,681	**(2,194)**
Income tax expense	(12,442)	8,914	(24,803)	(44,992)	**(39,183)**
(Loss)/profit for the year	119,560	102,196	216,194	260,689	**(41,377)**
Attribute to:					
Equity holders of the Company	119,530	102,106	216,095	260,592	**(41,401)**
Minority interest	30	90	99	97	**24**

	As at 31 December				
	2007 *HK$'000* (Audited)	2008 *HK$'000* (Audited)	2009 *HK$'000* (Audited)	2010 HK$'000 (Audited)	**2011** ***HK$'000*** **(Audited)**
ASSETS AND LIABILITIES					
Total assets	2,072,843	2,511,447	2,500,259	3,372,711	**3,444,540**
Total liabilities	(876,747)	(1,141,658)	(874,439)	(1,016,414)	**(1,148,247)**
Minority interest	(800)	(945)	(1,044)	(1,178)	**(616)**
Shareholder's equity	1,195,296	1,368,844	1,624,776	2,355,119	**2,295,677**