



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 1177)

Annual Report 2010



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Corporate Profile

Sino Biopharmaceutical Limited (the “Company”), together with its subsidiaries and a jointly-controlled entity (the “Group”), is an integrated pharmaceutical enterprise. Applying advanced modernized Chinese medicinal technology, the Group researches, develops, manufactures and markets a vast array of health enhancing modernized Chinese medicines and chemical medicines. The Group has also, through its wholly-owned subsidiary Chia Tai Refined Chemical Industry Limited, entered into an agreement to establish a joint venture engaging in the refining of coal to olefin products in Yulin City, Shaanxi Province, the People’s Republic of China (the “PRC”).

The Group’s products can be grouped under the two major therapeutic categories of cardio-cerebral diseases and hepatitis. It also actively develops medicines for treating tumors, analgesia, respiratory system diseases, diabetes and digestive system diseases to meet the increasing demands of the market, medical practitioners and patients.

Principal products:

- Cardio-cerebral medicines: Kaishi (Alprostadil) injections, Yilunping (Irbesartan/Hydrochlorothiazide) tablets, Tianqingning (Hydroxyethylstarch 130) injections, Spring (Purarin) injections
- Hepatitis medicines: Mingzheng (Adefovir Dipivoxil) capsules, Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Ganlixin (Diammonium Glycyrrhizinate) injections and capsules, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules, Tianqingfuxin (Marine) injections and capsules
- Oncology medicines: Tianqingyitai (Zolebrionate Acid) injections
- Analgesic medicines: Kaifen (Flurbiprofen Axetil) injections

Products with great potential:

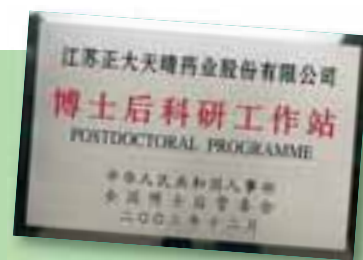
- Cardio-cerebral medicines: Tianqinggan (Glycerin and Fructose) injections
- Hepatitis medicines: Runzhong (Entecavir) dispersible tablets
- Oncology medicines: Renyi (Pamidronate Disodium) injections, Zhiruo (Palonosetron Hydrochloride) injections
- Diabetic medicines: Taibai (Metformin Hydrochloride) sustained release tablets
- Respiratory system medicines: Tianqingsule (Tiotropium Bromide) Inhalation powder
- Parenteral nutritious medicines: Xinhaineng (Carbohydrate and Electrolyte) injections
- Anorectal medicines: Getai (Diosmin) tablets
- Anti-infectious medicines: Tiance (Biapenem) injections



“Award for Outstanding Chinese Patented Invention” jointly granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC



Forbes Award



Postdoctoral Scientific Research Workshop

Corporate Profile

The medicines which have received Good Manufacturing Practice (“GMP”) certifications issued by the State Food and Drug Administration of the PRC are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP Certification for Health Food in capsules from the Department of Health of Jiangsu Province.

The Group’s jointly-controlled entity, Beijing Tide Pharmaceutical Co. Ltd. (“Beijing Tide”) has received the GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in February 2008. Thus, the Japanese pharmaceutical enterprises can assign the manufacturing of aseptic pharmaceutical products (products that are under research and products already launched to the domestic market within Japan) to Beijing Tide for export to Japan.

The Group’s several principal subsidiaries: Jiangsu Chia Tai – Tianqing Pharmaceutical Co. Ltd. (“JCTT”), Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“NJCTT”), Beijing Chia Tai Green Continent Pharmaceutical Co. Ltd. (“CT Green Continent”), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. (“Jiangsu Fenghai”), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. (“Jiangsu Qingjiang”), Shanghai Tongyong Pharmaceutical Co., Ltd. (“Shanghai Tongyong”) and Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. (“Qingdao Haier”) and jointly-controlled entity, Beijing Tide have been designated “High and New Technology Enterprises”. Beijing Tide also received the “Key New and High Technology Enterprise” certificate from the High-tech Industry Development Center of the Ministry of Science and Technology of the PRC in June 2006. In addition, JCTT was designated “2010 Best Research and Development of Product Line of Top Ten Industrial Enterprises in the PRC” from PRC Pharmaceutical Industrial Information Centre. NJCTT was awarded “2009 Advanced Technology Enterprise” from Nanjing Economic and Technological Development Zone in 2010.

Named by the Ministry of Personnel of the PRC as a “Postdoctoral Research and Development Institute”, the research center of JCTT is also the only “New Hepatitis Medicine Research Center” in the country.

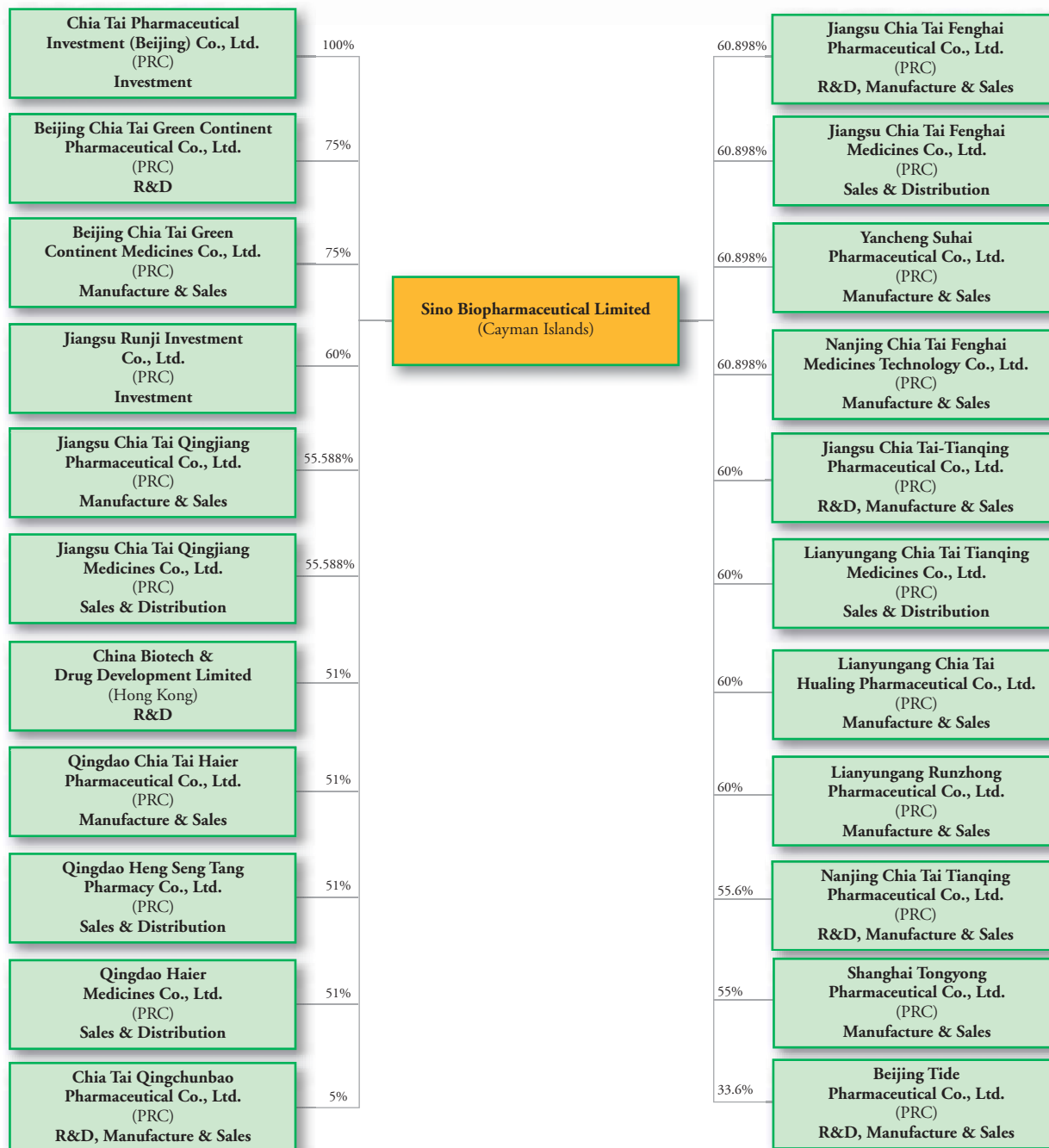
The Company has been selected as a constituent of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite SmallCap Index with effect from 8 March, 2010.

The Group’s website: <http://www.sinobiopharm.com>

Corporate Profile

GROUP STRUCTURE OF PRINCIPAL SUBSIDIARIES

Fig.1.1



Financial Summary

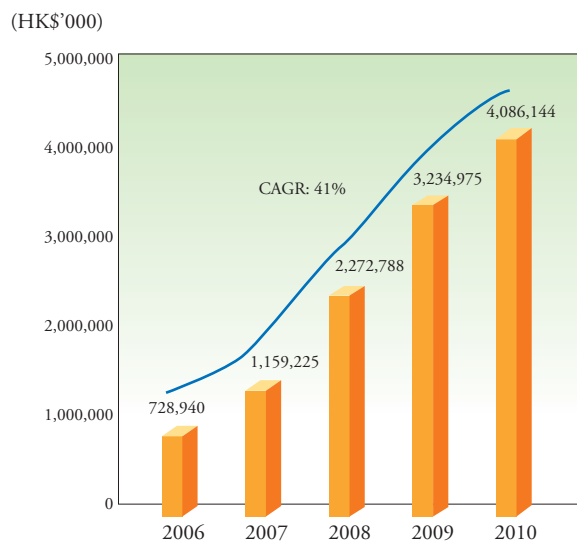
A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

| | 2010 HK\$'000 | 2009 HK\$'000 <i>(Restated)</i> | 2008 HK\$'000 <i>(Restated)</i> | 2007 HK\$'000 <i>(Restated)</i> | 2006 HK\$'000 <i>(Restated)</i> |
|--|--------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| TURNOVER | 4,086,144 | 3,234,975 | 2,272,788 | 1,159,225 | 728,940 |
| Cost of sales | (784,858) | (639,636) | (473,245) | (205,764) | (138,788) |
| Gross profit | 3,301,286 | 2,595,339 | 1,799,543 | 953,461 | 590,152 |
| Other income and gains | 243,391 | 61,899 | 104,431 | 103,416 | 97,198 |
| Selling and distribution costs | (1,677,386) | (1,287,499) | (876,591) | (503,751) | (327,720) |
| Administrative expenses | (539,866) | (416,852) | (305,493) | (154,708) | (121,802) |
| Other operating expenses | (232,680) | (151,568) | (112,492) | (53,743) | (31,254) |
| Finance costs | (5,804) | (2,773) | (9,135) | (2,575) | (2,205) |
| Share of (loss)/profit of an associate | (1,426) | 929 | – | 216 | 704 |
| PROFIT BEFORE TAX | 1,087,515 | 799,475 | 600,263 | 342,316 | 205,073 |
| Income tax expenses | (228,146) | (135,028) | (118,260) | (33,972) | (22,106) |
| PROFIT FOR THE YEAR | 859,369 | 664,447 | 482,003 | 308,344 | 182,967 |
| Attributable to: | | | | | |
| Owners of the parent | 566,897 | 396,962 | 297,615 | 224,353 | 141,172 |
| Non-controlling interests | 292,472 | 267,485 | 184,388 | 83,991 | 41,795 |
| | 859,369 | 664,447 | 482,003 | 308,344 | 182,967 |
| TOTAL ASSETS | 5,620,836 | 3,766,321 | 3,267,380 | 2,582,099 | 2,215,110 |
| TOTAL LIABILITIES | (1,319,288) | (738,377) | (615,446) | (361,796) | (183,611) |
| NET ASSETS | 4,301,548 | 3,027,944 | 2,651,934 | 2,220,303 | 2,031,499 |
| NON-CONTROLLING INTERESTS | (653,863) | (553,596) | (423,006) | (201,055) | (122,937) |

Financial Summary

SALES GROWTH

Fig.1.2



GROWTH OF PROFIT

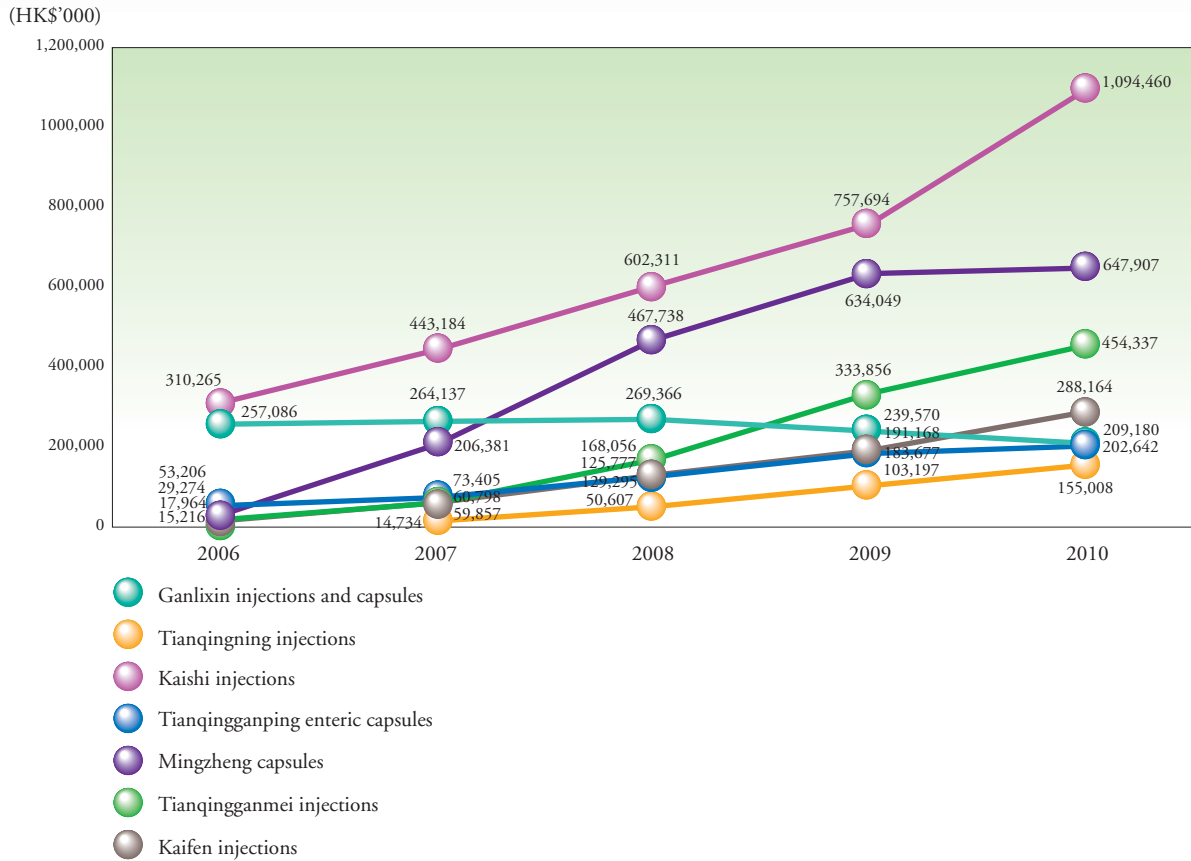
Fig.1.3



Financial Summary

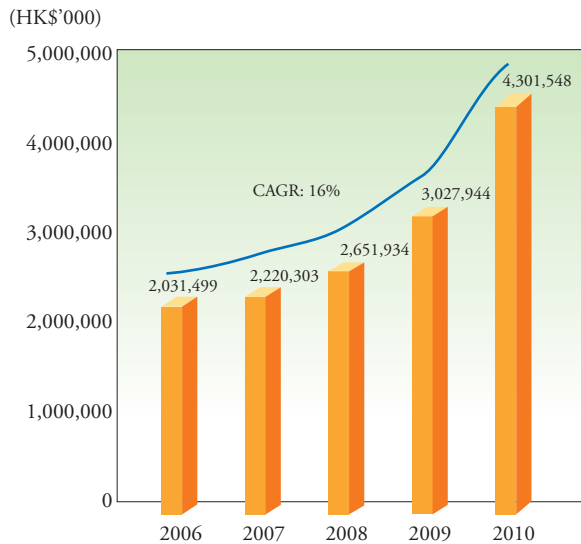
SALES GROWTH OF BLOCKBUSTER PRODUCTS

Fig.1.4



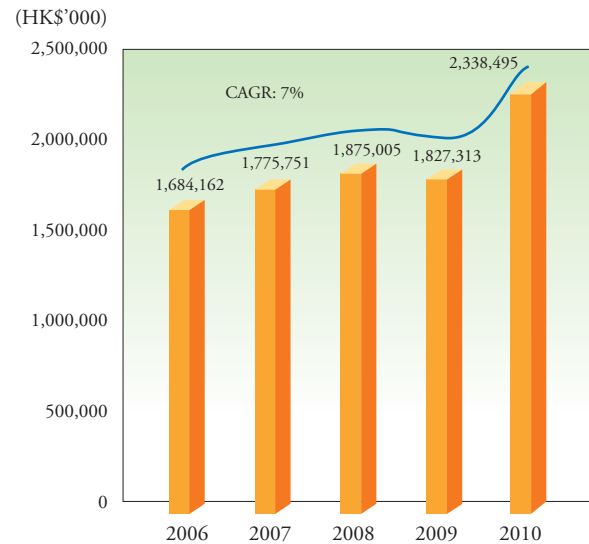
NET ASSET VALUE

Fig.1.5



CASH AND BANK BALANCES

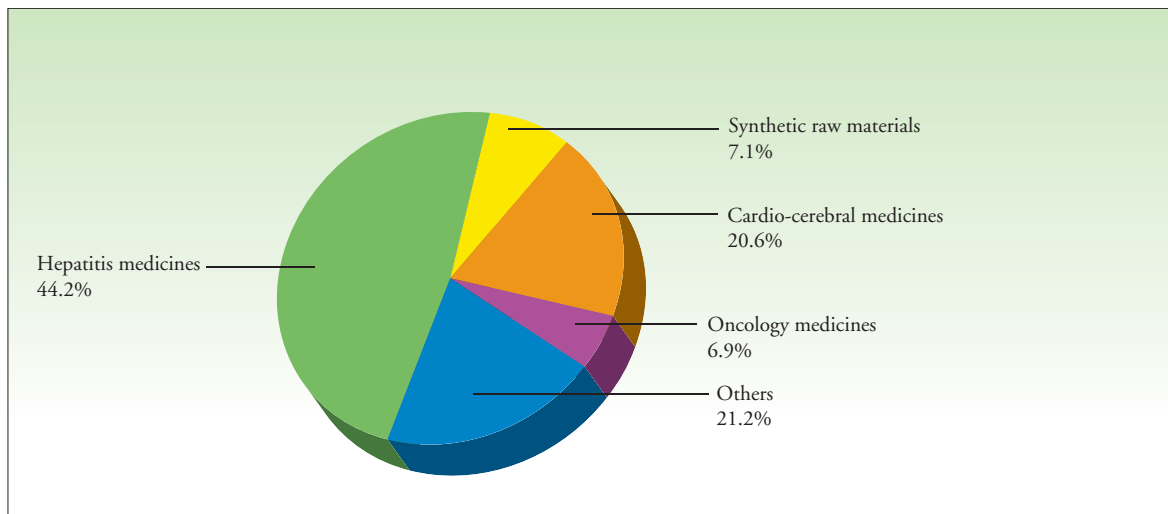
Fig.1.6



Financial Summary

TURNOVER BY THERAPEUTIC CATEGORIES (2010)

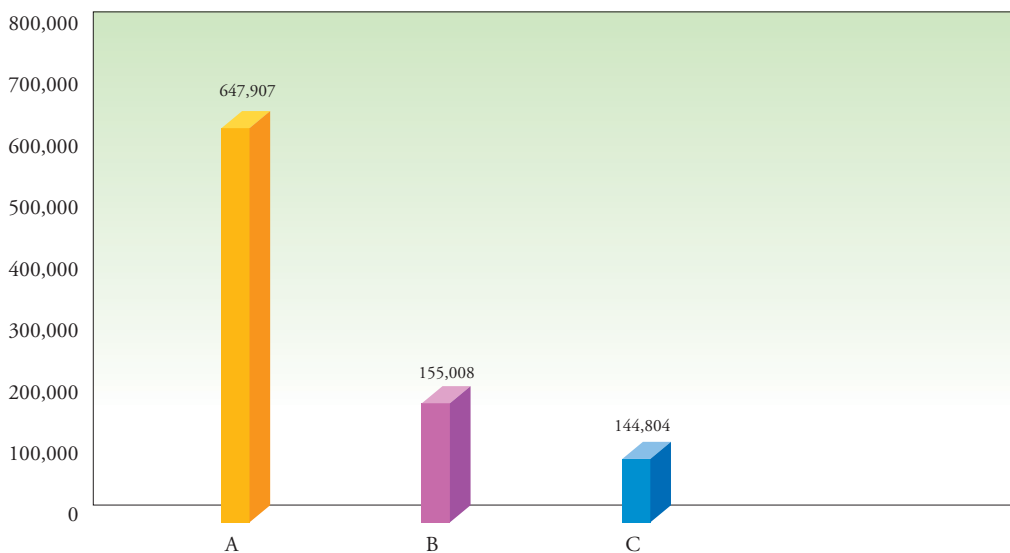
Fig.1.7



TURNOVER BY NEW PRODUCTS WITH GREAT POTENTIAL (2010)

Fig.1.8

(HK\$'000)



- A Mingzheng capsules (launched in July, 2006)
- B Tianqingning injections (launched in November, 2006)
- C Runzhong dispersible tablets (launched in March, 2010)

Awards

Corporate Awards

| |
|--|
| The Company was selected as a constituent of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite Small Cap Index both with effect from 8 March, 2010 |
| The Company was awarded “Chinese Outstanding Enterprise Achievement Prize” by the Capital Magazine in May, 2006 |
| The Company was awarded “Best under a 1 US Billion within the Asia Pacific region in 2005” by Forbes Asia |
| The Company was awarded “Hong Kong Outstanding Enterprises 2005” by Economic Digest |
| The Company was awarded “Red Herring Small Cap 100” by Red Herring Magazine |
| JCTT was commended “People’s Safe Medicine” enterprise in “Safe Medicine for Everyone”, an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People’s Health magazine |
| JCCT was designated “Torch Programme Excellent High and New Technology Enterprise” from the PRC’s Ministry of Science and Technology |
| JCTT was designated “Postdoctoral Scientific Research Workshop” from the Post-doctoral Administration Committee of the PRC’s Ministry of Personnel |
| NJCTT was awarded “Model Enterprise for establishment of quality and trustful medicines” by the PRC Pharmaceutical Quality Control Association |
| JCTT received “Advanced Technology Foreign Investment Enterprise certificate” from Outward Trade & Economic Cooperation Committee of Jiangsu Province |
| JCTT was designated “High and New Technology Enterprise certificate”, “Technology Intensive and Knowledge Intensive Enterprise” and “Jiangsu Provincial New Hepatitis Pharmaceutical Engineering Research and Technology Centre” from Science and Technology Committee of Jiangsu Province |
| JCTT was designated “2010 Best Research and Development of Product Line of Top Ten Industrial Enterprises in the PRC” from the PRC’s Pharmaceutical Industrial Information Centre |
| NJCTT was awarded “2009 Advanced Technology Enterprise” from Nanjing Economic and Technological Development Zone |
| Beijing Tide and CT Green Continent was designated “High and New Technology Enterprise” by Beijing Municipal Science and Technology Committee |
| Beijing Tide received “Advanced Technology Foreign Investment Enterprise Certificate” from Beijing Municipal Bureau of Commerce |
| Beijing Tide received “Key High and New Technology Enterprises Certificate” from Torch High Technology Industry Development Centre of the PRC’s Ministry of Science and Technology |
| Beijing Tide was awarded “The Potential Enterprises in the PRC in 2009” by Forbes Asia |

Product Awards

| |
|--|
| Tianqingganmei and its production method received the “The Tenth Chinese Patent Gold medal” jointly granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC |
| Tianqingganmei injections won the gold medal in “The Third Chinese International Patented and Famous Brands Exhibition” organized by State Intellectual Property Office of the PRC |
| Ganlixin was commended “People’s Safe Medicine Branding” in “Safe Medicine for Everyone”, an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People’s Health magazine |
| Ganlixin product line received “Jiangsu Famous Brand Certificate” from Jiangsu Promotion Commission for Famous Brand Strategy |
| Tianqingganping was awarded “National Torch Programme Project Certificate” from the PRC’s Ministry of Science and Technology |
| Kaishi injections received “National New Key Product Certificate” jointly awarded from the PRC’s Ministry of Science and Technology, the PRC’s Ministry of Commerce, the PRC’s National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of the PRC |
| Kaishi injections received “Beijing Science and Technology Second Honor Award” from the Beijing Municipal People’s Government |
| Entecavir, Biapenem, Getai, Renyi, Tianqingning, Yitong were granted “High and New Technology Product Confirmation Certificate” by the Bureau of Technology of Jiangsu Province |
| Kaifen injections received “National New Key Product Certificate” jointly awarded from the PRC’s Ministry of Science and Technology, the PRC’s Ministry of Commerce, the PRC’s National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of the PRC |
| Tianqingganmei injections received “Scientific and Technological Progress Second Honor Award” from Jiangsu Provincial Government |

Chairman's Statement



Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 31 December, 2010 for the Group.

INDUSTRY OVERVIEW

During the year under review, with the support of the PRC Government through the implementation of a progressive fiscal policy, the PRC economy has continued its relatively rapid growth. The improving economy, coupled with the rising disposable income of its population and the strong financial support from the PRC Government in enhancing the medical and health system reforms have driven the development of the pharmaceutical manufacturing industry. These favourable conditions have helped the enterprises to maintain steady increases in sales and profits. In the past year, the implementation of public hospital reform, a new edition of the Pharmacopoeia, a safety assessment of Chinese

medicine injection products and centralised procurement of pharmaceutical products in the PRC have not only enhanced the quality standards and standardisation management of the PRC pharmaceutical industry, but also facilitated a healthy growth of the industry. In the "Plan for Strategic Emerging Industries" launched in October 2010, the Government has added bio-industry to the list of pillar industries, demonstrating its high emphasis on this industry. The upgrade of biopharmaceutical and pharmaceutical industries were also selected as focused industries for development in the next five years. At the same time, pharmaceutical business is facing a challenging environment, for examples, strategic price cutting, continuous high Consumer Price Index ("CPI") and enormous industrial competition etc.



JCTT's factory



NJCTT's factory



Beijing Tide's factory



JCTT's R&D Center

Chairman's Statement

BUSINESS REVIEW

To enhance the competitiveness of its brand, during the year under review, the Group has continued to focus on new product development while strengthening quality control procedures to ensure that its products are safe and reliable and to enhance brand competitiveness. The Group has faced a number of challenges including the mandated adjustment in the price of pharmaceutical products by the PRC Government, implementation of centralised bidding and procurement of pharmaceutical products in each of the provinces and persistently high CPI. To address the situation, the Group has launched a series of measures to ensure stable growth of its business performance and to maintain the leadership of its main products in specific therapeutic pharmaceutical areas. Moreover, during the year under review, the Group has successfully increased its equity interests in Jiangsu Fenghai and Yancheng Suhai Pharmaceutical Co., Ltd. ("Yancheng Suhai"), which are engaged in the manufacture and sales of pharmaceutical products for the treatment of bacterial, inflammatory and cardio-cerebral medicines, and acquired the equity interests in Shanghai Tongyong, which is primarily engaged in the manufacture of dermatology and hormonal pharmaceutical products. These acquisitions will enable the Group to enter into new business segments and bring new income contribution to the Group.

The Group recorded turnover of approximately HK\$4,086.14 million during the year under review, an increase of approximately 26.3% against the same period last year. Profit attributable to the Group was approximately HK\$566.90 million, approximately 42.8% higher than in the same period last year. After the adjustment of the weighted average number of ordinary shares from the top-up placings of shares in January and June 2010, respectively, and from the share repurchases in April 2010, the basic earnings per share were approximately HK11.68 cents, approximately 33.2% higher than the corresponding period last year. Cash and bank balances totaled approximately HK\$2,338.50 million.

The Group continued to focus on developing specialized medicines where its strengths lie so as to build up its brand as a specialty medicine enterprise. Leveraging on its existing medicine series for treating hepatitis and cardio-cerebral diseases, the Group also actively developed oncology medicines, analgesic medicines, diabetic medicines, respiratory system medicines and digestive system medicines, etc.

OUTLOOK AND PROSPECT

Looking ahead, the Group believes that the PRC Government will implement progressive fiscal policy and stable monetary policy from 2011 onwards and speed up the development of a new socialist countryside and drive rural and urban development. The Government will also strive to establish a fair education system, fair adjustments for income allocation, undertake effort to establish a social welfare system covering cities and rural areas and support the reform and development of medical and healthcare businesses. These moves will help to enhance the social welfare security system and improve the wellbeing of citizens as well as create long term and favorable conditions for the pharmaceutical industry. The Group expects the rapidly aging population to become an important demand driver for medicines to treat chronic diseases. The underlying steady growth of the economy will also facilitate the continuous steady development of the pharmaceutical industry in the PRC.

The year 2011 also marks the beginning of the "Twelfth-Five Year Plan". Major concerns of the new plan are to adjust the economic structure and suppress inflation pressure. The price adjustment of pharmaceutical products and the "New GMP" implemented in March will likely to further reduce the earnings of the pharmaceutical product manufacturers. This in turn will facilitate the consolidation of the industry through mergers and acquisitions as well as restructuring to ensure the continuous healthy development of PRC's pharmaceutical industry in future.



Qingdao Haier's factory



Jiangsu Qingjiang's factory



Factories of Jiangsu Fenghai and Yancheng Suhai



Shanghai Tongyong's factory

Chairman's Statement

In 2011, a priority for the Group will be to continue strengthening quality control in production to ensure product safety. It will take measures to enhance management all-round to maintain product profitability and leadership in selected therapeutic pharmaceutical areas. The Group will also continue to invest in R&D in new products and new technologies to strengthen its capability in developing proprietary innovative medicines. At the same time, the Group will evaluate mergers and acquisitions and restructuring opportunities to drive business growth and expand its business under industry consolidation.

In the coal-olefin segment, as the effects of the global financial crisis still linger, the Group expects to continue seeking a more cost effective source of material for producing olefin. This business is expected to bring stable, promising revenue and provide a new profit growth driver of the Group in the long run. Since it takes necessary longer time to assess the impact of industrial production on the environment and water resources etc, the project is still at an early stage of preparation.

APPLICATION FOR LISTING BY BEIJING TIDE

On 27 December, 2010, Beijing Tide has made a formal application to the China Securities Regulatory Commission (the "CSRC") in respect of the proposed listing of its shares on the ChiNext of the Shenzhen Stock Exchange. The CSRC has issued to Beijing Tide a Notice of CSRC Administrative Permit of Acceptance of Handling on 4 January, 2011.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders for their trust, support and understanding, as well as to all staff for their dedication and diligence.



NJCTT's production plant for PVC-free large volume injections



JCTT's capsules production line



Beijing Tide's small volume injections production line



Tianqingganmei injections' production workshop



Qingdao Haier's production line

Management Discussion and Analysis

The Group's principal profit contributors are JCTT, Beijing Tide, NJCTT and Chia Tai Qingchunbao Pharmaceutical Co., Ltd..

Cardio-cerebral medicines

Cardio-cerebral medicines are manufactured mainly by Beijing Tide and NJCTT and accounted for approximately 20.6% of the Group's turnover. The segment's major product Kaishi injections produced by Beijing Tide works on the Drug Delivery System (DDS) theory to improve cardio-cerebral micro-circulation blockage. It is the first micro-sphere target sustained release medicine in the PRC. The proprietary pharmaceutical technology used by the Group enhances the product to have more apparent effect than similar products in the market, which allows it to enjoy majority market share. Beijing Tide was awarded GMP medicine certification by the Public Welfare and Health Ministry of Japan in February 2008. For the year ended 31 December, 2010, sales of Kaishi injections amounted to approximately HK\$1,094.46 million, an increase of approximately 44.4% as compared with the same period last year.

The Spring PVC-free soft bags for intravenous injections and the Spring injections manufactured by NJCTT are known for their stable quality since launched. NJCTT was named "Model Enterprise for Establishment of Quality and Trustful Medicines" by the PRC Pharmaceutical Quality Control Association in 2007. For the year ended 31 December, 2010, sales of the two products amounted to approximately HK\$55.72 million, a slight increase of approximately 2.2% when compared with the same period last year.



Chinese Premier Wen Jiabao met with Professor Mizushima Yataka

The sales of Tianqingngan injections manufactured and sold by NJCTT have had satisfactory growth since launched in 2004. For the year ended 31 December, 2010, the product recorded sales of approximately HK\$51.21 million, a slight increase of approximately 3.4% when compared with the same period last year.

NJCTT's Tianqingning injections, which was launched in 2006, is a plasma-volume expander for patients with blood volume deficiencies. As this product can be used as plasma for all blood types, it has huge market potential. For the year ended 31 December, 2010, the product recorded sales of approximately HK\$155.01 million, a large increase of approximately 50.2% when compared with the same period last year. Sales of another pharmaceutical product, Yilunping tablets, amounted to approximately HK\$146.92 million for the year ended 31 December, 2010, a remarkable increase of approximately 55.5% when compared with the same period last year.



Kaishi injections

Spring PVC-free soft bags for intravenous injections

Spring injections

Tianqingngan injections

Tianqingning injections

Yishenjuanbi pills

Runzhong dispersible tablets

Management Discussion and Analysis

Hepatitis medicines

Hepatitis medicines is one of JCTT's main product series which recorded sales of approximately HK\$1,805.76 million for the year ended 31 December, 2010 and accounted for approximately 44.2% of the Group's turnover.

JCTT mainly produces two categories of hepatitis medicines that can protect the liver while lowering enzyme levels and combating hepatitis virus. Ganlixin injections and capsules made with ingredients extracted from Licorice are the number 1 hepatitis medicine brand in the PRC. For the year ended 31 December, 2010, its sales amounted to approximately HK\$209.18 million, an approximately 12.7% decrease when compared with the same period last year. After the protection period of the product expired, many replicas have emerged into the market, resulting in intensified competition. The Group thus developed Tianqingganping enteric capsules with better therapeutic effect than Ganlixin capsules and its intellectual property right being protected. Sales of the medicine continued to increase to approximately HK\$202.64 million in the reviewing year, representing a growth of approximately 10.3% when compared with the same period last year. In 2005, JCTT launched the patented medicine Tianqingganmei injections, which was made with Isoglycyrrhizinate separated from Licorice. During the year under review, the product has bright prospects and recorded the sales of approximately HK\$454.34 million, an increase of approximately 36.1% against the same period last year. The Group believes that medicine series made with ingredients extracted from Licorice will help to maintain JCTT's leadership in the market for medicines protecting the liver and lowering enzyme levels.

The Group launched a patented hepatitis medicine called Mingzheng capsules in 2006. As a first-tier synthetic drug for combating hepatitis virus in the international market, the product has been well received by the market since launched with sales increasing rapidly. Mingzheng capsules have become another blockbuster product for combating hepatitis virus. For the year ended 31 December, 2010, its sales amounted to approximately HK\$647.91 million, a slight increase of approximately 2.2% when compared with the same period last year.

Tianqingfuxin injections and capsules are the modernized Chinese medicines for fighting hepatitis virus. For the year ended 31 December, 2010, sales amounted to approximately HK\$89.37 million, a decrease of approximately 19.4% when compared with the same period last year.

JCTT's self-developed new medicine for hepatitis B, Runzhong (Entecavir) dispersible tablet, has obtained the new product approval and production approval in February 2010, making JCTT the first pharmaceutical manufacturer to gain the approval for this product in the PRC. The product was launched to the market since March 2010. For the year ended 31 December, 2010, the sales amounted to approximately HK\$144.80 million. Runzhong dispersible tablet is the latest generation of guanine nucleoside analogue oral medicine. The medicine is used for the treatment of hepatitis B. It inhibits viral replication and has lower risk of triggering the emergence of medicine-resistant virus. After Entecavir was launched in the United States in 2005, the medicine recorded strong sales growth around the world as one of the most efficacious hepatitis B medicines.



Management Discussion and Analysis

Oncology medicines

Tianqingyitai injections, Tianqingrian injections, Zhiruo injections and Renyi injections are mainly developed and manufactured by JCTT and NJCTT. For the year ended 31 December, 2010, sales of oncology medicines amounted to approximately HK\$283.19 million, an increase of approximately 48.5% as compared with the same period last year.

Analgesic medicines

Launched in 2005, the analgesic medicine Kaifen injections is developed and manufactured by Beijing Tide. It is a Flurbiprofen Axetil microsphere target sustained release analgesic injection produced based on the DDS theory and enabled by advanced target technology. The product is famous for strong pain relieving effect with minimal side effects and has been well received by medical practitioners and patients since launched. Sales of the product for the year ended 31 December, 2010 amounted to approximately HK\$288.16 million, approximately 50.7% significantly higher than that as compared with the same period last year.

Diabetic medicines

The main diabetic medicine of the Group, Taibai sustained release tablets, which is used for lowering blood sugar level, was developed and manufactured by JCTT. There are more than 30 million diabetics in the PRC and Metformin Hydrochloride has been identified as a first-tier medicine for lowering blood sugar level. As Taibai sustained release tablets has sustained release capability, it can stabilise a patient's blood sugar level. For the year ended 31 December, 2010, the sales of the product have amounted to approximately HK\$36.80 million, an increase by approximately 11.7% as compared with the same period last year.

RESEARCH AND DEVELOPMENT

The Group continued to focus research and development ("R&D") efforts on new cardio-cerebral, hepatitis, oncology, analgesia and respiratory system medicines. During the year under review, it received 15 new product and production approvals. Also, a total of 48 cases had completed clinical research, or were under clinical trial or applying for production approval, out of which, 10 cardio-cerebral medicines, 10 hepatitis medicines, 9 oncology medicines, 4 respiratory system medicines, 1 diabetic medicine and 14 other medicines are being developed.

The Group emphasizes on "development of proprietary innovative medicines and generic drugs by itself as well as through coordination with other domestic and foreign parties" in order to improve the R&D standard and progress. In light of the fact that R&D continues to be the foundation of the development of the enterprises and that the government encourages the direction of innovative development, the Group continues to focus on the injection of resources towards R&D. For the year ended 31 December, 2010, it invested approximately HK\$229.72 million in R&D, which accounted for approximately 5.6% of revenue.

The Group also emphasizes on the protection of intellectual property rights. It encourages the active initiation of patent application in order to enhance the Group's core competitiveness. During the year under review, the Group has filed 42 invention patents and 1 apparel design patent. It also obtained 18 invention patent rights, 4 apparel design patents and 3 transfer invention patents. Together, the Group has obtained 224 invention patent rights, 3 utility model patent rights and 24 apparel design patent rights.



Ganlixin capsules

Ganlixin injections

Tianqingfuxin capsules

Tianqingfuxin injections

Tianqingganping enteric capsules

Tianqingganmei injections

Mingzheng capsules

Saiweijian injections

Flurbiprofen cataplasms

Management Discussion and Analysis

INVESTOR RELATIONS

The Group is dedicated to maintaining a high level of corporate governance. It has strived to keep close contact and maintain good communication with investors via a variety of communication channels. To further enhance corporate governance, efforts have also been made to collect more pertinent information and opinions.

During the year under review, the Group proactively undertook initiatives to communicate the latest information about the business to investors. It has also participated in 21 large investor conferences and roadshows across Europe, the US and Asia. These events include Morgan Stanley Global Healthcare Conference, Bank of America Merrill Lynch Global Healthcare Conference, Bank of America Merrill Lynch China Investment Summit, Goldman Sachs & Gao Hua China Investment Frontier Conference, UBS Global Life Sciences Conference and Citi Greater China Investor Conference. Besides, the Group has arranged for more than 20 factory site visits and 37 teleconferences and one-to-one meetings with more than 32 foreign and domestic institutional investors. These investors include Morgan Stanley Asia Limited, Goldman Sachs Gao Hua Securities Company Limited, Bank of America Merrill Lynch, Citi Investment Research, J.P. Morgan Securities (Asia Pacific) Limited, UBS Investment Bank, BNP Paribas Investment Partners Asia Limited, Value Partners Limited, Société Générale Asset Management, Bank of China International Research Limited, CCB International Asset Management Limited and ICBC (Asia) Investment Management Company Limited. These meetings served to increase the knowledge of these potential investors about the Group's operations and its latest developments, and thus solidify the confidence of shareholders, investors and customers.

In addition, the Group also posts its annual and interim reports, and issues quarterly, interim and annual results announcements, disclosures and circulars on its corporate website as well as on the website of Hong Kong Exchanges and Clearing Limited. The Group also issues news releases and organises media briefings to inform shareholders and investors about its latest developments, further facilitating a high degree of transparency.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company had complied with all the Code Provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December, 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, it was confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year under review, the Group's primary source of funds was cash derived from operating activities, disposal of Sino Concept Technology Limited in 2005 and top-up placings of existing shares in January and June 2010, respectively. As at 31 December, 2010, the Group's bank balance and cash in hand was approximately HK\$2,338.50 million (31 December, 2009: approximately HK\$1,827.31 million).

CAPITAL STRUCTURE

As at 31 December, 2010, the Group had short term loans of approximately HK\$28.24 million (31 December, 2009: approximately HK\$1.14 million) and long term loans of approximately HK\$127.06 million (31 December, 2009: Nil).

CHARGE ON ASSETS

As at 31 December, 2010, the Group had no charge on assets (31 December, 2009: Nil).

CONTINGENT LIABILITIES

As at 31 December, 2010, the Group and the Company had no material contingent liabilities (31 December, 2009: Nil).

Management Discussion and Analysis

ASSETS AND GEARING RATIO

As at 31 December, 2010, the total assets of the Group amounted to approximately HK\$5,620.84 million (31 December, 2009: approximately HK\$3,766.32 million) whereas the total liabilities amounted to approximately HK\$1,319.29 million (31 December, 2009: approximately HK\$738.38 million). The gearing ratio (total liabilities over total assets) was approximately 23.5% (31 December, 2009: approximately 19.6%).

TOP-UP PLACINGS

On 26 January, 2010, the Company has announced a top-up placing of existing shares and subscription of new shares under general mandate whereby China Life Insurance (Overseas) Company, Limited, CITIC Securities International Investment Management (HK) Limited, for China Alpha II Fund and CITIC Securities International Investment Management (HK) Limited, for CITIC Securities Alpha Leaders Fund have purchased 200,000,000, 27,500,000 and 27,500,000 shares of the Company, respectively, at HK\$2.1 per share.

On 17 June, 2010, the Company has announced another top-up placing of existing shares and subscription of new shares under general mandate to various places for 185,000,000 shares of the Company at HK\$3.35 per share.

The total net proceeds raised in respective of the aforesaid top-up placings aggregated to approximately HK\$1,137.77 million.

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

For the year from 1 January, 2010 to 31 December, 2010, the Company repurchased a total of 11,292,000 ordinary shares of HK\$0.025 each on the Stock Exchange at an aggregate consideration of HK\$34,087,336 (excluding the trading expenses of HK\$122,051). All of the purchased shares were cancelled. Details of which are stated as follows:-

| Date of the repurchase | Total number of ordinary shares repurchased | Highest price paid per share HK\$ | Lowest price paid per share HK\$ | Aggregate consideration HK\$ |
|------------------------|---|--------------------------------------|-------------------------------------|---------------------------------|
| 1 April, 2010 | 6,820,000 | 3.10 | 2.95 | 20,620,840 |
| 9 April, 2010 | 1,852,000 | 3.05 | 3.00 | 5,606,496 |
| 12 April, 2010 | 2,620,000 | 3.00 | 3.00 | 7,860,000 |
| | <u>11,292,000</u> | | | <u>34,087,336</u> |

Save as disclosed herein, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year from 1 January, 2010 to 31 December, 2010.

EMPLOYEE AND REMUNERATION POLICIES

The Group remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme. Total staff costs (including Directors' remuneration) for the year were approximately HK\$398,552,000 (2009: approximately HK\$249,937,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate of HK dollars and US dollars is pegged under the fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Corporate Governance Report

Sino Biopharmaceutical Limited (the “Company”) is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability.

For the year ended 31 December, 2010, the Company has applied the principles and complied with all code provisions prescribed in Appendix 14 – Code on Corporate Governance Practices (the “CG Code”) as required under the Listing Rules, which became effective on 1 January, 2005.

Despite the removal of the requirement for a qualified accountant on 1 January, 2009, the Company continues to engage a qualified accountant to oversee its accounting and financial reporting function.

This report describes our corporate governance practices and explains the applications of the principles of the CG Code and deviation (if any).

A. BOARD OF DIRECTORS

BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget should be retained for the Board’s approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management then reports back to the Board and obtains prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an executive board committee, audit committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees’ structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, where appropriate and necessary, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group’s compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committees meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Corporate Governance Report

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. During the year ended 31 December, 2010, the Board has held four regular meetings for discussion of the Company's financial results. Notices of regular Board/committees meetings have been given at least 14 days before the date of meeting. For all other Board/committees meetings, reasonable notices have been given.

Minutes of the Board/committees meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or Secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

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 will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director ("INED") who, and whose associates, have no material interest in the transaction, may be present at such board meeting.

BOARD COMPOSITION

The Board currently consists of a total of ten directors, which has included a Chairman, a Vice Chairman, a Chief Executive Officer ("CEO"), four Executive Directors and three INEDs.

| Position | Name |
|---------------------|------------------------------------|
| Chairman | : Mr. Tse Ping |
| Executive Directors | : Mr. Zhang Baowen (Vice Chairman) |
| | : Mr. Xu Xiaoyang (CEO) |
| | : Mr. Tse Hsin |
| | : Ms. Cheng Cheung Ling |
| | : Mr. Tao Huiqi |
| | : Mr. He Huiyu |
| INEDs | : Mr. Lu Zhengfei ("Mr. Lu") |
| | : Mr. Li Dakui ("Mr. Li") |
| | : Ms. Li Jun ("Ms. Li") |

Corporate Governance Report

The attributes, skills and expertise among the existing directors have a balance and mix of core competencies in areas such as pharmaceutical, accounting and finance, legal, business and management and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and active participating on committees, if invited;
- attending general meetings of the Company, where appropriate, and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping acted as the Chairman and Mr. Xu Xiaoyang acted as CEO of the Company.

The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Mr. Tse Ping is the spouse of Ms. Cheng Cheung Ling, an Executive Director of the Company. He and Mr. Tse Hsin, an Executive Director, are first cousins. Save as disclosed above, there are no family relationships among members of the Board and between the Chairman and the CEO.

Mr. Xu Xiaoyang is responsible for managing the Group's business and operations. He has no financial, business, family or other material/relevant relationship with other members of the Board and the Chairman.

Corporate Governance Report

APPOINTMENT, RE-ELECTION AND REMOVAL

The Company has a formal and proper procedure for consideration of the appointment of new directors to the board and for the resignation of any director.

The Articles of Association of the Company provides that (1) 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 be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (2) the directors to retire by rotation shall include any director who wishes to retire and not to offer himself for re-election. The retiring directors shall be those who have longest in office since their last re-election or appointment. All retiring directors are eligible for re-election.

Each of the Executive Directors are appointed for a term of three years. Each of the INEDs are appointed for a term of two years. All the Directors are subject to retirement by rotation and re-election at the Annual General Meeting (the “AGM”) of the Company, in accordance with the Articles of Association of the Company.

The names and biographical details of the directors who will offer themselves for election or re-election at the AGM are set out in a circular accompanying the notice of meeting, which will be despatched together with the annual report, to assist shareholders in making an informed decision on their elections.

Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

COMMITTEES

The Board has established Executive Board Committee (the “EBC”) and Remuneration Committee (the “RC”) in October, 2005 with written terms of reference to enable such committees to discharge their functions properly.

Executive Board Committee

The EBC consists of Mr. Tse Ping (Chairman), Mr. Zhang Baowen, Mr. Xu Xiaoyang and Mr. Tse Hsin.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restriction.

Corporate Governance Report

Remuneration Committee

The RC consists of Mr. Tse Ping (Chairman), Mr. Lu (INED) and Ms. Li (INED).

The principal functions of the RC include:

- recommending to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determining the basis of the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing the compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his associates is involved in deciding his own remuneration.

The RC has held a meeting during the year to discuss and review the basis for remuneration policy and package for the Group. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The Company has adopted a share option scheme on 24 November, 2003 and that the scheme mandate has been renewed on 18 June, 2007. The share option scheme serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration.

The RC consults the Chairman and the CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

The terms of reference of the RC is available from the Secretary on request and is posted on the Company's website.

Audit Committee

The Audit Committee (the "AC") was established on 19 September, 2000. The AC consists of three INEDs, Mr. Lu, Mr. Li and Ms. Li, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 27 June, 2005 and 27 March, 2009 in terms substantially the same as the provisions set out in the CG Code and in compliance with the Listing Rules from time to time.

Corporate Governance Report

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which includes:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors, any questions of resignation or dismissal of that auditors;
- discussing with external auditors' independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the quarterly, interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- reviewing the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised; and
- discussing with the management ensuring that the management has reviewed that there is adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The AC has performed the following work during the year ended 31 December, 2010:

- reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31 December, 2009 and management letter;
- reviewed with management the unaudited quarterly financial statements for the three months ended 31 March, 2010, interim financial statements for the six months ended 30 June, 2010 and the quarterly financial statements for the nine months ended 30 September, 2010;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of Group;
- reviewed the effectiveness of internal control system;
- reviewed the external auditors' statutory audit plan and engagement letter;
- recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors; and
- discussed with the management and ensured that the Board has conducted an annual review such that there is adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Minutes of the AC are kept by the Secretary. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the AC is available from the Secretary on request and is posted on the Company's website.

Corporate Governance Report

BOARD AND COMMITTEE ATTENDANCE

The Board has held four regular meetings in 2010. Details of the attendance of individual director at Board meetings and committee meetings during the year 2010 are set out below:

| Directors | No. of meetings attended/held | | |
|--|-------------------------------|------------------------|-----------------|
| | Board | Remuneration Committee | Audit Committee |
| Executive Directors | | | |
| Mr. Tse Ping | 3/4 | 1/1 | N/A |
| Mr. Zhang Baowen | 4/4 | N/A | N/A |
| Mr. Xu Xiaoyang | 3/4 | N/A | N/A |
| Mr. Tse Hsin | 4/4 | N/A | N/A |
| Ms. Cheng Cheung Ling | 3/4 | N/A | N/A |
| Mr. Tao Huiqi | 4/4 | N/A | N/A |
| Mr. He Huiyu | 4/4 | N/A | N/A |
| Independent Non-Executive Directors | | | |
| Mr. Lu Zhengfei | 3/4 | 1/1 | 3/4 |
| Mr. Li Dakui | 4/4 | N/A | 4/4 |
| Ms. Li Jun | 1/4 | 1/1 | 1/4 |
| No. of meetings | 4 | 1 | 4 |

SECURITIES TRANSACTIONS BY DIRECTORS/OFFICERS

The Company has adopted a code of securities dealing for directors/senior management/employees (the "Code") on terms no less exacting than the Model Code, as its own code of conduct regarding securities transactions.

Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees as defined in the Code deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit to deal in securities of the Company during the black-out period for compliance with the Code.

Corporate Governance Report

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensured the timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim results announcements and reports, quarterly results announcements, other 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 and application accounting standards.

INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted an annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance and risk management functions.

The Group maintains a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

The Board has also conducted a review of the adequacy of resources, qualifications and experience of staff of its accounting and financial reporting function, and their training programmes and budget.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors is set out as follows:

| | Fee Paid/Payable 2010 (HK\$'000) |
|--------------------|--|
| Services rendered | |
| Audit Services | 2,737 |
| Non-Audit Services | 20 |

Corporate Governance Report

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, quarterly results announcements, other announcements and circulars made through the Company's and Stock Exchange's websites.

The AGM or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of the AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors. The Company should ensure that votes cast are properly counted and recorded.

Pursuant to the requirement of the Listing Rules, the Company should arrange for the notice to shareholders to be sent in the case of AGM at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings. During the year ended 31 December, 2010, the Company has complied with the new Code Provision.

During the year under review, the AGM of the Company was held on 8 June, 2010 (the "2010 AGM"). Mr. Tse Ping, Chairman, and Mr. Lu Zhengfei, the Chairman of the AC, were present at the AGM. Together with Mr. Tao Huiqi, an executive Director, they answered questions at the AGM.

Pursuant to the requirement of the Listing Rules, at any general meeting of shareholders, all voting must be made by poll. Hence, at the 2010 AGM, all resolutions have been passed by way of poll, including, the amendment of its articles of association. In addition, the Company has arranged for the notice to shareholders to be sent at least 20 clear business days before the AGM and to be sent at least 10 clear business days in the case of all other general meetings.

The Company has held an extraordinary general meeting on 8 June, 2010 right after the closure of the 2010 AGM. At the extraordinary general meeting, resolutions have been passed by way of poll regarding the increase of authorized share capital of the Company.

The Company regularly releases latest corporate news of the Group's developments on its website at <http://www.sinobiopharm.com>. The public are welcome to give comments and make enquiries through the Company's website.

Report of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December, 2010 and the state of affairs of the Company and the Group at that date are set out in the annual report on pages 53 to 138.

The payment for the first quarter dividend of HK\$0.02 per ordinary share, the interim dividend of HK\$0.02 per ordinary share, and the third quarter dividend of HK\$0.02 per ordinary share totaling HK\$293,473,000 was paid during 2010.

The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year ended 31 December, 2010 to shareholders on the register of members on Tuesday, 31 May, 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the statement of financial position.

Report of Directors

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

| | 2010 HK\$'000 | 2009 HK\$'000 <i>(Restated)</i> | 2008 HK\$'000 <i>(Restated)</i> | 2007 HK\$'000 <i>(Restated)</i> | 2006 HK\$'000 <i>(Restated)</i> |
|--|--------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| TURNOVER | 4,086,144 | 3,234,975 | 2,272,788 | 1,159,225 | 728,940 |
| Cost of sales | (784,858) | (639,636) | (473,245) | (205,764) | (138,788) |
| Gross profit | 3,301,286 | 2,595,339 | 1,799,543 | 953,461 | 590,152 |
| Other income and gains | 243,391 | 61,899 | 104,431 | 103,416 | 97,198 |
| Selling and distribution costs | (1,677,386) | (1,287,499) | (876,591) | (503,751) | (327,720) |
| Administrative expenses | (539,866) | (416,852) | (305,493) | (154,708) | (121,802) |
| Other operating expenses | (232,680) | (151,568) | (112,492) | (53,743) | (31,254) |
| Finance costs | (5,804) | (2,773) | (9,135) | (2,575) | (2,205) |
| Share of (loss)/profit of an associate | (1,426) | 929 | – | 216 | 704 |
| PROFIT BEFORE TAX | 1,087,515 | 799,475 | 600,263 | 342,316 | 205,073 |
| Income tax expenses | (228,146) | (135,028) | (118,260) | (33,972) | (22,106) |
| PROFIT FOR THE YEAR | 859,369 | 664,447 | 482,003 | 308,344 | 182,967 |
| Attributable to: | | | | | |
| Owners of the parent | 566,897 | 396,962 | 297,615 | 224,353 | 141,172 |
| Non-controlling interests | 292,472 | 267,485 | 184,388 | 83,991 | 41,795 |
| | 859,369 | 664,447 | 482,003 | 308,344 | 182,967 |
| TOTAL ASSETS | 5,620,836 | 3,766,321 | 3,267,380 | 2,582,099 | 2,215,110 |
| TOTAL LIABILITIES | (1,319,288) | (738,377) | (615,446) | (361,796) | (183,611) |
| NET ASSETS | 4,301,548 | 3,027,944 | 2,651,934 | 2,220,303 | 2,031,499 |
| NON-CONTROLLING INTERESTS | (653,863) | (553,596) | (423,006) | (201,055) | (122,937) |

Report of Directors

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 32 and 33 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the period from 1 January, 2010 to 31 December, 2010, the Company repurchased a total of 11,292,000 ordinary shares of HK\$0.025 each on the Stock Exchange at an aggregate consideration of HK\$34,087,336 (excluding the trading expenses of HK\$122,051). All of the purchased shares were cancelled.

Save as disclosed herein, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from 1 January, 2010 to 31 December, 2010.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2010, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of HK\$99,133,000 (2009: HK\$95,659,000), amounted to HK\$1,790,275,000 (2009: HK\$1,112,281,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

Report of Directors

DIRECTORS

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

Executive directors:

Mr. Tse Ping
Mr. Zhang Baowen
Mr. Xu Xiaoyang
Mr. Tse Hsin
Ms. Cheng Cheung Ling
Mr. Tao Huiqi
Mr. He Huiyu

Independent non-executive directors:

Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Li Jun

In accordance with article 87 of the Company's articles of association, Mr. Zhang Baowen, Mr. Tao Huiqi, Mr. He Huiyu and Mr. Lu Zhengfei will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the Company's articles of association.

The Company has received from each of the independent non-executive director an annual confirmation of independence pursuant to the new independence guidelines under the Listing Rules and that the Company considers such directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 42 to 48 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2010, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("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 Companies, were as follows:

Long positions in ordinary shares of the Company

Number of shares held, capacity and nature of interest

| Name of Director | Notes | Capacity/ Nature of interest | Directly beneficially owned | Through controlled corporations | Through Spouse | Total | Approximate percentage of the Company's issued share capital |
|-----------------------|-------|------------------------------------|-----------------------------------|---------------------------------------|-------------------|---------------|---|
| Mr. Tse Ping | (1) | Beneficial owner | 90,000,000 | 2,020,417,815 | – | 2,110,417,815 | 42.58% |
| Ms. Cheng Cheung Ling | (2) | Deemed interest | – | – | 2,110,417,815 | 2,110,417,815 | 42.58% |
| Mr. Zhang Baowen | | Beneficial owner | 400,000 | – | – | 400,000 | 0.01% |
| Mr. Tse Hsin | | Beneficial owner | 34,224,000 | – | – | 34,224,000 | 0.69% |
| Mr. Tao Huiqi | | Beneficial owner | 3,599,999 | – | – | 3,599,999 | 0.07% |

Notes:

- (1) Mr. Tse Ping held 2,020,417,815 shares through Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping.
- (2) Ms. Cheng Cheung Ling is the spouse of Mr. Tse Ping and is therefore deemed to be interested in the same shares in which Mr. Tse Ping has an interest.

Report of Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long position in shares of an associated corporation of the Company

| Name of Director | Name of associated corporation | Notes | Capacity | Number of shares | Approximate percentage of shareholding |
|-----------------------|--------------------------------|-------|--------------------------------------|------------------|--|
| Mr. Tse Ping | Beijing Tide | (a) | Interest in a controlled corporation | 120,000,000 | 24% |
| Ms. Cheng Cheung Ling | Beijing Tide | (b) | Interest in a controlled corporation | 120,000,000 | 24% |
| Mr. Zhang Baowen | Jiangsu Fenghai | | Beneficial owner | 32,333 | 0.35% |
| | Yancheng Suhai | | Beneficial owner | 32,027 | 0.35% |
| | JCTT | | Beneficial owner | 229,250 | 0.18% |
| | NJCTT | | Beneficial owner | 26,583 | 0.53% |
| | Jiangsu Qingjiang | | Beneficial owner | 151,335 | 0.31% |
| Mr. Xu Xiaoyang | Qingdao Haier | | Beneficial owner | 22,680 | 0.3% |
| | | | | | |
| Mr. Tse Hsin | Qingdao Haier | | Beneficial owner | 7,560 | 0.1% |
| | | | | | |
| Mr. Tse Hsin | JCTT | | Beneficial owner | 229,250 | 0.18% |
| | NJCTT | | Beneficial owner | 26,583 | 0.53% |

Notes:

- (a) Mr. Tse Ping holds 51.33% interests in France Investment (China 1) Group Limited, which indirectly holds interests in Beijing Tide.
- (b) Ms. Cheng Cheung Ling holds 40% interests in France Investment (China 1) Group Limited, which indirectly holds interests in Beijing Tide.

Saved as disclosed above, as at 31 December, 2010, none of the Directors and chief executives of the Company had any interests and short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the 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 Companies.

Report of Directors

PERSONS WHO HAVE AN INTERESTS AND/OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2010, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long position in shares and/or underlying shares

| Name | Note | Capacity/Nature of Interest | Number of underlying shares of the Company | Approximate percentage of issued share capital of the Company |
|-------------------------------|------|-----------------------------|--|---|
| Validated Profits Limited | (1) | Beneficial owner | 1,590,977,815 | 32.09% |
| Remarkable Industries Limited | (1) | Beneficial owner | 429,440,000 | 8.67% |

Note:

- (1) Each of Validated Profits Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Mr. Tse Ping who is the sole director of each of these companies and a Director.

Save as disclosed above, as at 31 December, 2010, no person (not being a Director or chief executive of the Company) had an interests and/or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors and Chief Executives' interests and short positions in share, underlying shares and debentures" above and in the "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in 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 or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of Directors

CONNECTED TRANSACTIONS

During the year, the Group have the following related party transactions, as further detailed in note 38 to the financial statements, which also constituted continuing connected transactions under the Listing Rules:-

On 9 November, 2007, Lianyungang Chia Tai – Tianqing Medicines Co., Ltd. (“LYG Tianqing”), a wholly-owned subsidiary of our 60%-owned subsidiary, JCTT, as the purchaser, has entered into an agreement with NJCTT (an associate of Jiangsu State Agribusiness Group Corporation Limited (“Jiangsu Agribusiness”), a 33.5% of equity holder of JCTT (a connected person of the Company) and a connected person of the Company), as the supplier, for the sale and distribution of cardio-cerebral medicines and anti-bacterial and anti-inflammatory medicines for three years from 1 January, 2008 to 31 December, 2010 for an annual cap not exceeding RMB20,000,000 (approximately HK\$20,427,000), RMB25,000,000 (approximately HK\$25,534,000) and RMB30,000,000 (approximately HK\$30,640,000), respectively. The transaction amounted to RMB21,411,000 (approximately HK\$24,575,000) for the year ended 31 December, 2010 and has been eliminated on consolidation.

On 9 November, 2007, LYG Tianqing, as the purchaser, has entered into an agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the sale and distribution of anti-bacterial and anti-inflammatory medicines and cardio-cerebral medicines for three years from 1 January, 2008 to 31 December, 2010 for an annual cap not exceeding RMB5,000,000 (approximately HK\$5,107,000), RMB7,000,000 (approximately HK\$7,149,000) and RMB9,000,000 (approximately HK\$9,192,000), respectively. The transaction amounted to RMB3,887,000 (approximately HK\$4,461,000) for the year ended 31 December, 2010 and has been eliminated on consolidation.

On 17 April, 2008, the Company, as the tenant and Billion Source Holdings Limited (“Billion Source”) (held as to 50/50 respectively by Mr. Tse Ping (“Mr. Tse”) and Ms. Cheng Cheung Ling (“Ms. Cheng”), Directors of the Company and a connected person of the Company), as the landlord, entered into a tenancy agreement regarding the letting of an office premises in Beijing for a term of three years from 1 January, 2008 to 31 December, 2010 for an annual rental not exceeding RMB3,000,000 (approximately HK\$3,326,000), RMB3,300,000 (approximately HK\$3,659,000) and RMB3,630,000 (approximately HK\$4,025,000), respectively. The transaction amounted to RMB3,000,000 (approximately HK\$3,443,000) for the year ended 31 December, 2010.

On 24 September, 2008, JCTT, as the purchaser, has entered into a master purchase agreement (the “2008 JAC Master Purchase Agreement”) with Jiangsu State Agribusiness Commercial Commodities Limited (a wholly-owned subsidiary of Jiangsu Agribusiness and a connected person of the Company) (“Jiangsu Agribusiness Commodities”), as the supplier, for the purchase of coal for three years from 1 January, 2009 to 31 December, 2011 for an annual cap not exceeding RMB7,800,000 (approximately HK\$8,874,000), RMB9,000,000 (approximately HK\$10,239,000) and RMB12,000,000 (approximately HK\$13,652,000), respectively. The transaction amounted to RMB3,888,000 (approximately HK\$4,463,000) for the year ended 31 December, 2010.

On 24 September, 2008, CT Green Continent, as service provider, has entered into a technology development services agreement with Jiangsu Fenghai (a connected person of the Company) for the provision of technology development services for cardio-cerebral medicines, gastrointestinal medicines, anti-diabetic medicines and antibiotics for three years from 1 January, 2009 to 31 December, 2011 for an annual cap not exceeding RMB5,000,000 (approximately HK\$5,689,000) each year. The transaction amounted to nil for the year ended 31 December, 2010.

Report of Directors

CONNECTED TRANSACTIONS (continued)

During the year, the Group have also entered into the following agreements, which constituted connected/continuing connected transactions under the Listing Rules:-

On 30 November, 2010, JCTT, as the supplier, has entered into a master raw materials supply agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the purchaser, for the supply of raw materials for synthetic medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB2,500,000 (approximately HK\$2,900,000), RMB3,000,000 (approximately HK\$3,400,000) and RMB3,500,000 (approximately HK\$4,000,000), respectively.

On 30 November, 2010, JCTT, as the supplier, has entered into a master raw materials supply agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the purchaser, for the supply of raw materials for cardio-cerebral medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB40,000,000 (approximately HK\$45,900,000), RMB60,000,000 (approximately HK\$68,900,000) and RMB80,000,000 (approximately HK\$91,900,000), respectively.

On 30 November, 2010, JCTT, as the supplier, has entered into a master raw materials supply agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company), as the purchaser, for the supply of raw materials for synthetic medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB1,000,000 (approximately HK\$1,100,000), RMB3,000,000 (approximately HK\$3,400,000) and RMB5,000,000 (approximately HK\$5,700,000), respectively.

On 30 November, 2010, JCTT, as service provider, has entered into a master services agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company) for the provision of research and development services for improvement and application of sugar-based supplement products for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB10,000,000 (approximately HK\$11,500,000) each year.

On 30 November, 2010, JCTT, as service provider, has entered into a master services agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company) for the provision of research and development services for improvement and application of cardio-cerebral medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB15,000,000 (approximately HK\$17,200,000) each year.

On 30 November, 2010, JCTT, as service provider, has entered into a master services agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company) for the provision of research and development services for improvement and application of orthopedic medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB2,000,000 (approximately HK\$2,300,000), RMB4,000,000 (approximately HK\$4,600,000) and RMB6,000,000 (approximately HK\$6,900,000), respectively.

On 30 November, 2010, LYG Tianqing, as the purchaser, has entered into a master pharmaceuticals purchase agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, anti-bacterial and anti-inflammatory medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB30,000,000 (approximately HK\$34,500,000), RMB37,000,000 (approximately HK\$42,500,000) and RMB45,000,000 (approximately HK\$51,700,000), respectively.

Report of Directors

CONNECTED TRANSACTIONS (continued)

On 30 November, 2010, LYG Tianqing, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, anti-bacterial and anti-inflammatory medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB9,000,000 (approximately HK\$10,300,000), RMB10,300,000 (approximately HK\$11,500,000) and RMB11,000,000 (approximately HK\$12,600,000), respectively.

On 30 November, 2010, LYG Tianqing, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Chia Tai Fenghai Medicines Co. Ltd. ("Jiangsu Fenghai Medicines") (a wholly-owned subsidiary of Jiangsu Fenghai, an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry, respiratory system, gynecology and internal medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB6,000,000 (approximately HK\$6,900,000), RMB8,000,000 (approximately HK\$9,200,000) and RMB10,000,000 (approximately HK\$11,500,000), respectively.

On 30 November, 2010, Jiangsu Chia Tai Qingjiang Medicines Co. Ltd. ("Jiangsu Qingjiang Medicines"), as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry and respiratory system medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB4,000,000 (approximately HK\$4,600,000), RMB5,000,000 (approximately HK\$5,700,000) and RMB6,000,000 (approximately HK\$6,900,000), respectively.

On 30 November, 2010, NJCTT, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai Medicines (a wholly-owned subsidiary of Jiangsu Fenghai, an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry, respiratory system, gynecology and internal medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB4,000,000 (approximately HK\$4,600,000), RMB6,000,000 (approximately HK\$6,900,000) and RMB8,000,000 (approximately HK\$9,200,000), respectively.

On 30 November, 2010, Jiangsu Qingjiang, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai Medicines (a wholly-owned subsidiary of Jiangsu Fenghai, an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry, respiratory system, gynecology and internal medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB4,000,000 (approximately HK\$4,600,000), RMB5,000,000 (approximately HK\$5,700,000) and RMB6,000,000 (approximately HK\$6,900,000), respectively.

On 30 November, 2010, JCTT, as the purchaser, has entered into a master purchase agreement with Jiangsu Agribusiness Commodities (a wholly-owned subsidiary of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of coal for three years from 1 January, 2011 to 31 December, 2013 to replace the 2008 JAC Master Purchase Agreement, for an annual cap not exceeding RMB10,000,000 (approximately HK\$11,500,000), RMB11,000,000 (approximately HK\$12,600,000) and RMB12,000,000 (approximately HK\$13,800,000), respectively.

Report of Directors

CONNECTED TRANSACTIONS (continued)

On 30 November, 2010, the Company, as the supplier, has entered into a master supply agreement with Orient Success International Limited (“OSIL”) (a company which Mr. Jaran Chiaravanont, Mr. Montri Jiaravanont, Mr. Sumet Jiaravanon and Mr. Dhanin Chearavanont (the “Chearavanont Shareholders”), on an aggregate basis, are its controlling shareholders and Mr. Tse is the nephew of the Chearavanont Shareholders, a connected person of the Company), as the purchaser, for the supply of antibiotics by the Company, its subsidiaries, jointly-controlled entities and associated companies to OSIL, its subsidiaries, jointly-controlled entities and associated companies for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB3,000,000 (approximately HK\$3,400,000), RMB5,000,000 (approximately HK\$5,700,000) and RMB7,000,000 (approximately HK\$8,000,000), respectively.

On 30 November, 2010, the Company, as the tenant and Billion Source (held as to 50/50 respectively by Mr. Tse and Ms. Cheng, Directors of the Company and a connected person of the Company), as the landlord, entered into a tenancy agreement regarding the leasing of the premises in Beijing for a term of three years from 1 January, 2011 to 31 December, 2013 for an annual rental not exceeding RMB3,800,000 (approximately HK\$4,400,000), RMB4,200,000 (approximately HK\$4,800,000) and RMB4,600,000 (approximately HK\$5,300,000), respectively.

On 30 November, 2010, the Company, as the tenant and Ms. Cheng (a Director of the Company and a connected person of the Company), as the landlord, entered into a tenancy agreement regarding the leasing of 10 car park spaces in Beijing for a term of three years from 1 January, 2011 to 31 December, 2013 for an annual rental not exceeding RMB150,000 (approximately HK\$172,000), RMB180,000 (approximately HK\$207,000) and RMB216,000 (approximately HK\$248,000), respectively.

On 30 November 2010, Lucky Symbol Holdings Limited, as the purchaser, has entered into an acquisition agreement with Mr. Tse (a Director of the Company and a connected person of the Company), as the vendor, regarding the acquisition of the entire 100% issued share capital of Ace Elite Investments Limited, whose primary assets are 25% equity interests in each of Jiangsu Fenghai and Yancheng Suhai for a total consideration of RMB201,704,000 (approximately HK\$231,657,000), out of which RMB199,383,000 (approximately HK\$228,992,000) is attributable to Jiangsu Fenghai and RMB2,320,500 (approximately HK\$2,665,000) is attributable to Yancheng Suhai.

In 2010, the investors (including Validated Profits Limited (“Validated Profits”), Chia Tai Land Company Limited (“CT Land”) and other independent third parties) have entered into an agreement (“Consortium Agreement”) to form the investment consortium for the purpose of tendering a bid to the relevant governmental authorities in Beijing for the acquisition of a site located at Beijing Chaoyang District CBD and, subject to the bid being successful, forming the project company for the purpose of carrying out the development of the project. On 6 December, 2010, Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. (“CTP Investment”), a wholly-owned subsidiary of the Company, entered into (a) an investment agreement with Validated Profits, whereby Validated Profits agreed to transfer to CTP Investment all of its investment rights and obligations under the Consortium Agreement in connection with 7.5% of the total investment to be contributed by the investment consortium with nil consideration; and (b) an investment agreement with CT Land, whereby CTP Investment agreed to transfer to CT Land its investment rights and obligations under the Consortium Agreement in connection with 2.5% of the total investment to be contributed by the investment consortium with nil consideration. Details are set out in the Company’s press announcement dated 6 December, 2010.

* The exchange rates used for the conversion of RMB into Hong Kong dollars represented the exchanged rates on the dates of the respective announcements.

INEDs have reviewed the terms and transactions and conformed to the Board of Directors that, in their opinion, the transactions, and the arrangements governing those transactions, are entered into by the relevant members of the Group in the ordinary and usual course of business and on normal commercial terms, and were fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

Report of Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2010.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

As at 31 December, 2010, the following director was considered to have interests in a business which competes or was likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below.

Mr. Tse Ping owns controlling interests or investment interests in ABH Nature's Products Inc. ("ABH").

ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group.

Mr. Tse Ping has executed a deed of non-competition undertaking in favour of the Company on 9 September 2003 which has become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange.

Pursuant to the Undertaking, Mr. Tse Ping has undertaken to the Company that, conditional upon the commencement of trading in the shares on the Main Board, for so long as (i) Mr. Tse Ping, together with his associates, shall remain beneficially interests, directly or indirectly, in shares with at least 30 per cent. of the voting rights of the Company (from time to time), and (ii) the shares shall remain traded on the Main Board, neither Mr. Tse Ping nor any of Mr. Tse's Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (saved through Mr. Tse's interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the Undertaking:-

"Mr. Tse's Company(ies)" refers to any of the companies or other entities of which more than 50 per cent. of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature;

"Restricted Business" refers to:-

- (i) the research and development, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernized Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and
- (ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases; and

"Territory" refers to the PRC (including Hong Kong).

Report of Directors

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (continued)

The Undertaking does not apply to the following:-

- (i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;
- (ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse Ping and/or his associates do not amount to more than 20 per cent. of the issued shares or other securities of the company in question; and
- (iii) the investment by Mr. Tse Ping and/or Mr. Tse's Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse or Mr. Tse's company, in either case in accordance with paragraph below.

In the event that Mr. Tse Ping or any Mr. Tse's Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which Xian C.P. Pharmaceutical Co., Ltd. and/or HTPC is/are engaged as at the date of the Undertaking) (the "Proposed Business"), Mr. Tse will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse and/or any Mr. Tse's Company shall be provided to the Company. The independent non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:-

- (i) reject the said opportunity in its entirety; or
- (ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or
- (iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse Ping (including through a Mr. Tse's Company) takes up the balance of the investment upon terms approved by the independent non-executive Directors.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

Report of Directors

EMOLUMENT POLICY

Including the Directors, the Group had around 8,590 employees as at 31 December, 2010. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as share option scheme.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company has taken into consideration of their expertise and job specifications.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code Provisions set out in the Code on Corporate Governance as set out in Appendix 14 of the Listing Rules for the year ended 31 December, 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Having made specific enquiry of all Directors, it was confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three INEDs including one with financial management expertise, details of their biographies have been set out in the 2010 annual report.

Report of Directors

AUDIT COMMITTEE

The Company has established the AC with written terms of reference in accordance with the requirement of the Code on Corporate Governance Practices. The primary duties of the AC are to review the Company's annual and interim reports and accounts, and quarterly results and to provide advice and comments thereon to the board of directors. The AC will also be responsible for reviewing the financial reporting process and internal control system of the Group. The AC has three members comprising the three INEDs, Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

The Group's financial statements for the year ended 31 December, 2010 have been reviewed by the AC, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Tse Ping
Chairman

PRC
28 March, 2011

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. Tse Ping (謝炳先生), aged 59, is the Founder and Chairman of the Company. He is responsible for the overall operations of the Group. With more than 19 years of pharmaceutical related investment and management experience, he is currently a director of JCTT, NJCTT, Jiangsu Fenghai, Yancheng Suhai, Qingdao Haier, Qingdao Chia Tai Haier Medicines Co., Ltd. (“Qingdao Haier Medicines”), Qingdao Heng Seng Tang Pharmacy Co., Ltd. (“Qingdao HST”), Beijing Tide, CT Green Continent and Beijing Chia Tai Green Continent Medicines Co., Ltd. (“Green Continent Medicines”). Mr. Tse was formerly the Vice Chairman of C.P. Lotus Corporation. Mr. Tse was also formerly the vice chairman of Shenzhen 999 Pharmaceutical Co., Ltd. (深圳三九藥業有限公司), and was involved in the management of Hainan Qingqihaiyao Stock Company Limited (海南輕騎海藥股份有限公司) (formerly known as Hainan Pharmaceutical Industrial Joint-Stock Company Limited (海南海藥實業股份有限公司)), which is now listed on the Shenzhen Stock Exchange in the PRC. Mr. Tse was also formerly the chairman of CTQ which is now a subsidiary of SIIC Medical, the chairman of Xian CP and the executive chairman of TM International Bank Co., Ltd, based in Shanghai. Mr. Tse is still a director of CTQ, a committee member of the Association of Pharmaceutical Biotechnology of China and an honoral professor of Shenyang University of Pharmacy.

Within the contemporary pharmaceutical industry, with the leadership by Mr. Tse Ping, Sino Biopharmaceutical Limited’s market in hepatitis medicines and the therapeutic segment of micro-sphere target sustained medicine demonstrate a leading position. JCTT, Beijing Tide and CTQ were ranked the top 100 profit-making enterprises under the National Pharmaceutical Industrial Statistics Annual Report. In November, 2005, the Company was awarded “Best under 1 US Billion enterprise within the Asian Pacific Region” by Forbes Asia. At the first “Capital – Chinese Outstanding Enterprise Achievement Prize” campaign launched by the Capital Magazine, the Company was awarded “Capital – Chinese Outstanding Pharmaceutical Group Prize” in May, 2006. In January, 2008, Mr. Tse was awarded in Hong Kong with “the World Outstanding Chinese” and a honorable Doctor Degree by the University of West Alabama, United States of America. In December, 2008, he was awarded “2007/2008 Asian Knowledge Management Association academician” by the Asian Knowledge Management Association. In June, 2010, Mr. Tse was awarded “The Top Ten Most Leading Innovative Persons of the PRC Enterprises in 2010” by the PRC Productivity Society and the PRC Corporation Press.

Mr. Tse is a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People’s Political Consultative Conference. He is currently the vice chairman of Association of Chinese Natives Chamber of Commerce in the PRC. Mr. Tse is also the Vice Chairman of Association of Chinese Multinational Corporation.

Mr. Zhang Baowen (張寶文先生), aged 54, is the Vice Chairman, an Executive Vice President and a senior engineer of the Company, and principally responsible for the Group’s business development and management. He is a graduate of the Shenyang Pharmaceutical University with a Bachelor Degree in science. Mr. Zhang joined the Group in October, 1994 and has extensive experience in the pharmaceutical industry. Mr. Zhang was previously appointed as the head of the Group’s investment division. He is currently a director of JCTT, NJCTT, LYG Tianqing, Jiangsu Fenghai, Yancheng Suhai, Jiangsu Qingjiang, CT Green Continent, Green Continent Medicines, Qingdao Haier, Qingdao Haier Medicines and Qingdao HST. Mr. Zhang is a member of the 20th and 21st committee of the China Medicine Association. He has over 28 years of experience in the pharmaceutical industry. Mr. Zhang has 5 invention patents and has released thesis in the United States of America.

Mr. Xu Xiaoyang (徐曉陽先生), aged 48, joined the Group in September, 2007. He is the Chief Executive Officer of the Company and the chairman of Shanghai Tongyong. He also served as President, senior engineer and practicing pharmacist of the Group. He is responsible for affairs with government authorities, management of various subsidiaries and certain investment projects of the Group. He obtained a Bachelor Degree in Industrial Science from Chinese Medicine Department of the Business Faculty of Harbin University of Commerce (previously known as “Heilongjiang Institute of Commerce”). Before joining the Group, he had worked as chief engineer and general manager in Tianjin Darentang Pharmaceutical Factory. In 1992, Mr. Xu was selected by the Sino-Japan Association for International Exchange of Talents for the Japan Association for Overseas Technical Scholarship (AOTS) program and studied research and development and management for one year with Matsuura Yakugyo, Japan

Directors and Senior Management Profile

and obtained an education proof. He has also studied a Master Degree of Business Administration in Tianjin University of Finance and Economics during 1997 and 1998. In 1999, he also studied Business Administration in Technische Fachhochschule Berlin. Mr. Xu is the leader in natural science technology segment in Tianjin, an expert in pricing strategy of the pharmaceutical products assessment centre of the The National Development and Reform Commission, technical consultant of the China Chamber of Commerce of Medicines and Health Products Importers and Exporters, an expert in China Association of Traditional Chinese Medicines and a member of the Eighth editorial committee of “Chinese Herbs Magazine” and a member of the Tianjin Euro-American Students Association. Mr. Xu has several patents and released various thesis.

Mr. Tse Hsin (謝焯先生), aged 41, is an Executive Director and a Vice President of the Company. He is mainly responsible for the acquisition and merger activities of the Group. He is also the Group’s spokesman. Mr. Tse graduated from the University of Hong Kong with a Bachelor’s Degree (Honors) in Industrial Engineering. He joined the Group in August, 1995 as an assistant to the President of the Company and served as the general manager of Xian CP. Mr. Tse is a council member of the first council and the executive council member of the second council of Chaozhou Natives Chamber of Commerce Beijing. He is also an executive member of the Right Protection Association for the Medical Treatment Equipment Enterprises of the Shaanxi Province, the vice chairman of the fourth council of the Foreign Invested Enterprises Association of the Shaanxi Province, the executive member of the third committee of the Shaanxi Cancer Fighting Association and the vice chairman of the World Chinese Medicine and Pharmaceutical Professional Joint Committee. He was also awarded the “Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province” and “Outstanding Entrepreneur who cares about his staff” by the Shaanxi Provincial Government. He is also an executive director of Beijing Tide, a director of JCTT and the director and vice president of Chia Tai Healthcare (Holdings) Limited. He is a first cousin of Mr. Tse Ping, the Founder, Chairman and Executive Director of the Company. He is the brother of Ms. Tse Wun, a member of the senior management of the Company. He is also a first cousin of Ms. Chia Fai and Mr. Tse Hsuan, Johnny, members of the senior management of the Company.

Ms. Cheng Cheung Ling (鄭翔玲女士), aged 47, graduated from the Guanghua School of Management of Peking University and obtained a Master Degree in Business Administration. She joined the Company as an executive director in January, 2005. She is also the director of Beijing Tide. She is responsible for the public relation affairs of the Group. She is also the member of the Standing Committee of China Overseas Friendship Association, a vice chairlady of the Shaanxi Province Federation of Industry and Commerce, and a member of the Standing Committee of the Chinese People’s Political Consultative Conference Shaanxi Provincial Committee. She is the spouse of Mr. Tse Ping (a first cousin of Mr. Tse Hsin), both the executive director and substantial shareholder of the Company.

Mr. Tao Huiqi (陶惠啟先生), aged 61, joined the Group in April, 1997 and is the director of Jiangsu Qingjiang. He is a university graduate and senior economist. Mr. Tao has extensive experience in managing pharmaceutical companies. He has been awarded the title of an “Outstanding Entrepreneur” by the China Pharmaceutical Enterprises Management Association, Association of Entrepreneur Medicine of China and the State Medicine Commission, Jiangsu Economic Planning Commission, and Jiangsu Pharmaceutical Administration, respectively.

Mr. He Huiyu (何惠宇先生), aged 67, joined the Company as an Executive Director in January, 2005. He graduated from the medical department in Hunan Medical College in 1968. He is a chief doctor, professor-level researcher. Mr. He has over 37 years experience in clinical medical treatment, scientific research management, and integrated traditional Chinese Medicine and Western medicine and clinical research and development. He has been the chairman of Hunan Hengyang Traditional Chinese Medicine and Western Medicine Integration Hospital and Hunan Hengyang Central Hospital, chief executive of the Bureau of Chinese Pharmaceutical Management and the chairman of China-Japan Friendship Hospital. Mr. He is a member of the Tenth National Committee of the Chinese People’s Political Consultative Conference. He is also the vice chairman of Association of International Development of Medicines and Health of the PRC.

Directors and Senior Management Profile

Independent non-executive Directors

Mr. Lu Zhengfei (陸正飛先生), aged 47, is the chairman of the AC and a member of the RC. He received P.h.D. Degree in Economics with concentration in financial management. Mr. Lu is currently the Vice Chairman, Professor and supervisor of doctoral students, Guanghua School of Management of Peking University. He has previously held various senior positions in the Department of Accounting of both Peking University and Nanjing University. He is the consulting expert of the China Financial Accounting Standards Board, Ministry of Finance. He is also a director of the China Accounting Association and an executive director of the China Auditing Association. Mr. Lu is the editor of several accounting and finance journals and he has issued various publications. He is an independent non-executive director of China National Materials Co. Ltd. and Sinotrans Limited and an independent supervisor of PICC Property and Casualty Company Limited, whose shares are listed on the Stock Exchange.

Mr. Li Dakui (李大魁先生), aged 67, joined the Company as an INED and a member of the AC in September, 2004. He graduated from the Faculty of Pharmacy of Beijing Medical University (now named Faculty of Medicine and Pharmacy of Beijing University) in 1965. In 1982, he obtained a Master Degree in Pharmaceutics from Peking Union Medical College (“PUMC”) and is the chief pharmacist of PUMC Hospital and used to be a director of Pharmacy Department of PUMC Hospital for years. Mr. Li is also a vice president of the Chinese Pharmaceutical Association, the Chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association, the vice chairman of the Chinese Practicing Pharmacist Association, a vice editor of Chinese Pharmaceutical Magazine and Chinese Hospital Pharmaceutical Journal and Chinese Journal of Hospital Pharmacy, a member of the Chinese Pharmaceutical Committee and vice team leader of its medicine professional team, a member of the Drug Evaluation Committee of State Food and Drug Administration of China. Mr. Li is a member of advisory committee on safety of medicinal products meeting organized by World Health Organization.

Ms. Li Jun (李軍女士), aged 42, joined the Company as an INED and a member of the AC in January, 2005 and she is also a member of the RC. She obtained a Bachelor Degree in International Law from Fudan University (Law Department) and a Master Degree in Economic Law from Peking University (Law Department). She has also studied at SOAS, London. She has been qualified as a PRC lawyer since 1992. She joined Zong Heng Law Firm, Beijing as one of the founding partners in 1993. She has previously worked with Joseph & Chan, Hong Kong and Clifford Chance, Hong Kong as a senior PRC lawyer. Ms. Li has extensive experience in various areas of litigation, arbitration and dispute resolution work, mainly in dealing with commercial disputes, civil tort and administrative disputes. She is also engaged in great deal of non-disputes tasks such as change of constitution of state-owned enterprises, initial public offering and mergers and acquisition.

SENIOR MANAGEMENT

Ms. Leung Sau Fung, Fanny (梁秀鳳女士), is the vice president and the company secretary of the Company. She joined the Group in February, 1992. She is responsible for overseeing the corporate compliance of the Group’s listed and statutory issues. She obtained a Honours Diploma in Company Secretaryship and Administration. She is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Before joining the Group, Ms. Leung worked in the Company Secretarial Department of an international audit firm.

Ms. Yu Chau Ling (余秋玲女士), is the assistant vice president, financial controller and qualified accountant of the Company. She graduated from the University of Hong Kong with a Bachelor Degree in Social Sciences and obtained the MBA degree from The Open University of Hong Kong in 2005. She is the fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants respectively. Ms. Yu joined the Company in February, 2003 and has extensive working experience in the international audit firm and listed companies.

Ms. Chen Xiaofeng (陳曉楓女士), aged 57, is the vice president and the officer of audit division of the Company. She is principally responsible for the Group’s internal audit issues. Ms. Chen joined the Group in November, 1993 and was the manager of the investment division, deputy controller of the accounting division, controller of the finance and accounting division and the financial controller in the PRC. She is a director of NJCTT and a supervisor of JCTT. Ms. Chen is a certified accountant in the PRC and has over 27 years of experience in accounting and finance.

Directors and Senior Management Profile

Ms. Cheng Hui (程惠女士), aged 47, is the deputy financial controller of the Group. Ms. Cheng joined the Group in May, 1993 and is responsible for the Group's PRC financial and personnel issues. She has been the head of the finance department in China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 21 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel in 1992, and ACCA Chinese finance and accounting qualification certificate issued by Chartered Association of Certified Accountants. Ms. Cheng received international advanced human resources management professional training held by the International Public Management Association for Human Resources (IPMA-HR).

Ms. Li Mingqin (李名沁女士), aged 52, is the vice president of the Company, the director and deputy general manager of CTGC and the director of Beijing Tide. She is principally responsible for the investment affairs of the Group. Ms. Li graduated from the Faculty of Medicine of the Beijing Chinese Medicine University with a Bachelor Degree in medicine. Prior to joining the Company, Ms. Li has worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in the teaching of medicines, R&D of new medicines and medicines management. During the period from 1992 to 1995, Ms. Li has been engaged in Post-doctorate research in the Medicine School of University of Colorado, USA and the Medical College in the University of Massachusetts. Ms. Li joined the Group in March, 1997 and she has 28 years of experience in the pharmaceutical industry.

Ms. Dong Ping (董萍女士), aged 42, is the general manager of finance and accounting division of the Company. Ms. Dong joined the Group in June, 2000. She graduated from the Economic Management Department of Beijing Youth Politics College. She also holds Certificate of Completion of Executive MBA Programme for Marketing Management of Pharmaceutical Industry jointly awarded by Beijing Asia-Pacific Education Centre and Social Development Research Institute, and Beijing Qunyin Enterprise Management Corporation Ltd.. Ms. Dong has been the deputy manager of the financial division of the Group, the deputy general manager of Finance and accounting division of Xian Chia Tai Pharmaceutical Co. Ltd. and the assistant to the Financial Controller of the Company in the PRC. Ms. Dong has about 18 years of experience in accounting and finance, and is a certified accountant in China.

Mr. Sun Jian (孫鍵先生), aged 49, is the president of JCTT and the general manager of LYG Tianqing. Mr. Sun joined the Group in April, 1997 and has extensive experience in sales and production management. Mr. Sun was a senior vice president of JCTT. He graduated from Nanjing Polytechnic Institute with a Degree in engineering. He has over 22 years of experience in pharmaceutical industry.

Mr. Wu Yuchao (吳玉潮先生), aged 64, has more than ten years of experience in group operation. Mr. Xu was the deputy general manager of Nantong Farm and the general manager of Huaiyin Qingjiang Pharmaceutical factory. He also worked at the industry department of Jiangsu Agribusiness Group and make great contribution to the industry development of the agribusiness group. Mr. Wu is currently the vice chairman and the general manager of Jiangsu Fenghai, and the director of Jiangsu Fenghai Medicines and Yancheng Suhai. He was awarded Dafeng Famous Entrepreneur in 2007 and 2008.

Mr. Tian Zhoushan (田舟山先生), aged 47, joined the Group in April, 1997 and is responsible for the business of NJCTT. Mr. Tian is a vice president of JCTT and the general manager of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the production manager, and assistant to the president of JCTT. Mr. Tian has 22 years of experience in the pharmaceutical industry.

Mr. Tang Zhaocheng (唐兆成先生), aged 44, is a vice president of JCTT. He is responsible for the production management of JCTT. Mr. Tang joined JCTT in April, 1997. He has a professional qualification in chemical engineering. Mr. Tang has been a vice officer in technological production, and a manager in quality control as well as a chief officer in GMP and assistant to president of JCTT. He has been a team leader in the production of Ganlixin and Zegui Longshuang in JCTT. Mr. Tang has over 17 years of experience in the pharmaceutical industry.

Directors and Senior Management Profile

Ms. Han Caifeng (韓才峰女士), aged 52, joined the Group in July, 2007 and is the general manager and director of Jiangsu Qingjiang. She obtained a Bachelor's Degree and graduated as a post-graduate in the Department of Enterprise Management of Nanjing University. She is the vice president of the Sino-Western Medical Practitioner Society of the Jiangsu Province. She has over 22 years' experience in pharmaceutical enterprise management.

Mr. Wang Minggang (王明剛先生), aged 54, joined the Group in September, 2008 and is the vice chairman of the board of directors and the general manager of Qingdao Haier. He is also a practicing doctor and a senior engineer. Mr. Wang has worked in some large-scale domestic and foreign pharmaceutical companies and he has more than 21 years of experience in the pharmaceutical industry. He has been the marketing director of Xian CP, the sales general manager of Beijing Sihuan Pharmaceutical Factory, and the general manager of Qingdao Haier. Mr. Wang is also a member of Qingdao Pharmaceutical Association, a member of Qingdao Medical Association, and a member of the Tenth Qingdao Laoshan District's Committee of the Chinese People's Political Consultative Conference.

Mr. Qu Yunzhi (曲韻智先生), aged 55, joined the Group in October, 2002 and is responsible for the business of CT Green Continent. He is the vice chairman and the general manager of CT Green Continent. He obtained a Master Degree in medical science in Inner Mongolia Medical University. Mr. Qu was the chairman of Hohhot Natural Pharmacy Industrial Research Institute. Mr. Qu has 27 years of experience in the scientific research of medicines and has expertise in R&D of dripping pills.

Mr. Zhang Xiquan (張喜全先生), aged 41, is the chief engineer of JCTT. Mr. Zhang graduated from Nankai University in 1994 with a M.S. Degree. He has carried out studies of a number of new drugs with expertise in drug candidate selection and drug development with partners. Mr. Zhang joined JCTT in April, 1997.

Ms. Li Chun Ling (李春玲女士), aged 39, is a vice president of JCTT. She is responsible for the financial and accounting affairs of JCTT. Ms. Li joined the Group in February, 1996 and was a manager in the audit department and finance and accounting department of the Group. Ms. Li graduated from Guizhou College of Finance and Accounting. Before joining the Group, Ms. Li had worked in audit firms and as a team in-charge for social auditing of projects. Ms. Li has over 12 years experience in finance and accounting, and is a certified accountant in the PRC.

Ms. Gu Liping (顧莉萍女士), aged 49, is a vice president of JCTT. She is principally responsible for the public relation affairs for JCTT. She graduated from the department of chemistry of Nanjing University and holds a M.S. Degree. Ms. Gu is a senior engineer and she joined the Group in December, 2001. She was the vice director of the finance division of Jiangsu Agribusiness and the deputy general manager of Jiangsu Juxin Investment Management Company Limited.

Mr. Wang Shanchun (王善春先生), aged 43, is the general engineer of JCTT. He graduated from Nanjing University of Chemistry in July, 1990 and joined JCTT in 2009. Mr. Wang studied a Master Degree in pharmaceutical engineering with Tianjin University from 1999 to 2002. He was a vice officer and an officer of the production plant, the deputy manager and the manager of engineering department, chief of GMP office and the vice general engineer.

Mr. Li Jinming (李金明先生), aged 46, is the deputy general manager of LYG Tianqing. Mr. Li studied in the pharmaceutical major of Chinese Pharmaceutical University. Mr. Li holds the MBA Degree awarded jointly by Huadong University of Science and Technology and America University of Management and Technology. Mr. Li has over 11 years experience as major district manager in pharmaceutical sales in two well-known pharmaceutical enterprises in the PRC. He was the major district manager of JCTT for five years. Mr. Li has extensive sales and management experience.

Mr. Wang Hong (王宏先生), aged 47, is a deputy general manager of LYG Tianqing and is responsible for the sales management. Mr. Wang graduated from Shanghai Medical University in 1991 with a Master degree in medical science. He also holds an MBA Degree from the Business School of the National University of Singapore. He was the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. where he had worked for 8 years. Mr. Wang has more than 11 years of experience in sales and he joined the Group in December, 2002, he was a vice president of JCTT and was responsible for sales management.

Mr. Zhang Xichang (張夕昌先生), aged 69, is a senior advisor of JCTT. Mr. Zhang has been a workshop officer, deputy factory director and vice president of JCTT and was responsible for the production, sales, finance and R&D of JCTT. Mr. Zhang has over 32 years experience in pharmaceutical enterprise management. Mr. Zhang joined the Group in April, 1997.

Directors and Senior Management Profile

Ms. Wu Ruizhen (吳瑞珍女士), aged 63, is a deputy general manager and financial controller of LYG Tianqing. She graduated from Gansu Television Broadcast University with a Degree in industrial accounting. Ms. Wu joined the Group in January, 1997 and was a vice president of finance and accounting division of JCTT and a senior advisor of JCTT. Ms. Wu has over 32 years of experience in finance.

Mr. Zhang Zhenqian (張震乾先生), aged 41, is the deputy general manager and an engineer of NJCTT. Mr. Zhang joined the Group in April, 1997 and is responsible for the sales and operation of NJCTT. Graduated from Xuzhou College of Engineering, Mr. Zhang has completed the studies in EMBA program in Guanghua Management School in Beijing University. Mr. Zhang has over 12 years experience in pharmaceutical industry and was a branch manager, major district manager of JCTT.

Mr. Wang Kuanqi (王寬起先生), aged 44, is the deputy general manager of NJCTT and is responsible for production. Mr. Wang graduated from Changzhou Chemical Institute with the profession qualification in organic synthesis. He joined JCTT in 1988. He studied pharmacy with China Pharmaceutical University from 1999 to 2002. He was a team leader and an officer of the production plant, the production manager and an assistant to general manager.

Mr. Huang Renzhong (黃仁忠先生), aged 63, is the president of Shanghai Tongyong. He graduated from China Pharmaceutical University in Operation Management and obtained the MBA degree from Fudan University. He is the post-graduate and a senior economist. He was the factory director and secretary of Shanghai Biochemical Factory in 1985 and the factory director of Shanghai No. 9 Pharmaceutical Factory in 1987. He was also the president and secretary of Shanghai Tongyong Pharmaceutical Co., Ltd. during 2000 to 2010. He is the people representative of JingAn District of Shanghai City for successive three years, and the executive member of Industrial and Business Association in JingAn District of Shanghai City and a vice chairman of Shanghai Pharmaceutical Industry Association. He was awarded “China Pharmaceutical System Model Worker Honor” in 1998.

Dr. Ye Wei Nong (葉衛農博士), aged 48, is the assistant president of the Company and general manager of the R&D department. He is responsible for the Group’s development on Biotechnology. He is currently a director of China Biotech & Drug Development Limited and Jiangsu Fenghai. Dr. Ye graduated from Zhongshan (Dr. Sun Yat-Sen) University in biochemistry with a bachelor degree in science. In 1989, Dr. Ye obtained a doctoral degree (Ph.D.) in microbiology in Institute National des Sciences Appliquees (INSA) de Toulouse of France. He also obtained a certificate of study for Masters specialised in marketing and food technology in Ecole Superieure de Commerce (ESC) de Toulouse of France. Prior to joining the Group in July, 2002, Dr. Ye worked in Europe and Hong Kong for biotechnology and pharmaceutical companies. Dr. Ye is a member of The Advisory Committee on Applied Biology and Chemical Technology of The Hong Kong Polytechnic University. He is also a member of the 8th Subcommittee of Industrial Biochemistry and Molecular Biology under The Chinese Society of Biochemistry and Molecular Biology (CSBMB).

Ms. Chia Fai (謝輝女士), aged 53, is an assistant to the chairman of the Company and personnel manager. Ms. Chia joined the Group in November, 1991 and has more than 21 years of experience in financial area. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Company Limited, Talent Forward Limited, Sino Biopharmaceutical (Beijing) Limited and Magnificent Technology Limited. She is a sister of Mr. Tse Ping and a first cousin of Mr. Tse Hsin.

Ms. Tse Wun (謝媛小姐), is an assistant to the chairman of the Company. She joined the Group in November, 1991. She is principally responsible for the Group’s administration and financial matters in Hong Kong. Ms. Tse graduated from the University of Oregon with a B.S. degree. She was formerly a director of Shenzhen 999 Pharmaceutical Co., Ltd. and has 12 years of experience in finance and investment. She is a first cousin of Mr. Tse Ping. She is a sister of Mr. Tse Hsin.

Mr. Lu Yuehui (呂月輝先生), aged 57, is the financial controller and a deputy general manager NJCTT. He joined the Group in February, 1995. Mr. Lu graduated from the Department of Foreign Language Department in Beijing Hongqi University and Department of Accountancy in Beijing Finance and Trade Institute. He was an instructor of the Department of Accountancy in Beijing Economic Management Cadre College. Mr. Lu has been the manager of audit department and manger of finance and accountancy in the Group. Mr. Lu has 27 years of experience in finance and accounting profession and is a qualified accountant.

Directors and Senior Management Profile

Mr. Tse Hsuan, Johnny (謝炫先生), aged 41, is the general manager of the company's Information Management Department. He joined the Group in January, 2003. He is principally responsible for the development and maintenance of information system for the Company. Mr. Tse graduated from the University of Oregon with a B.S. Degree in computer science in the United States. He also graduated from ESMOD Paris (Ecole International de Mode Paris) with a diploma in fashion design and pattern drafting. Before joining the Company, Mr. Tse worked in Beijing Major Kind Co., Ltd. engaged in fashion design and computer system maintenance. His design of uniform for air attendants was adopted by Air China. He is a first cousin of Mr. Tse Ping and Mr. Tse Hsin, respectively.

Mr. Wang Yonggan (王永干先生), aged 33, is the assistant to the Company's financial controller in the PRC. Mr. Wang studied in the department of economics with major in accounting at Shandong University of Science and Technology and graduated with a Bachelor Degree in economics. In September, 1999 Mr. Wang joined the Group and was the deputy manager in the finance and accounting division of JCTT, and was the financial manager of the Company. Mr. Wang holds China's Certified Public Accountant certificate and Registered Tax Agent certificate.

Mr. Shen Xiaoguang (沈曉光先生), aged 39, is the general manager of the investment management department of the Company. Mr. Shen participates in the business development and management of the Group, and is responsible for the market analysis of main products and R&D of new products. Mr. Shen graduated from the Heilongjiang College of Business with a Bachelor Degree in Science in pharmaceutical manufacturing, and has about 13 years experience in pharmaceutical sales and marketing and product R&D. Mr. Shen joined the Group in February, 2003.

Mr. Jiang Yi (蔣誼先生), aged 44, is the deputy general manager of the investment management department of the Company. Mr. Jiang joined the Group in March, 2004 and is principally responsible for new project investment and management. Mr. Jiang graduated from The Third Military Medical University with a Bachelor Degree in medical science. Mr. Jiang has been the regional business manager and national business manager for about 9 years in China representative offices of foreign pharmaceutical enterprises. He has about 16 years of experience in sales and marketing in pharmaceutical industry.

Corporate Information

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors

Mr. Tse Ping (*Chairman*)

Mr. Zhang Baowen (*Vice Chairman*)

Mr. Xu Xiaoyang (*CEO*)

Mr. Tse Hsin

Ms. Cheng Cheung Ling

Mr. Tao Huiqi

Mr. He Huiyu

Independent non-executive Directors

Mr. Lu Zhengfei

Mr. Li Dakui

Ms. Li Jun

AUDIT COMMITTEE

Mr. Lu Zhengfei (*Chairman*)

Mr. Li Dakui

Ms. Li Jun

REMUNERATION COMMITTEE

Mr. Tse Ping (*Chairman*)

Mr. Lu Zhengfei

Ms. Li Jun

COMPANY SECRETARY

Ms. Leung Sau Fung, Fanny

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUTHORISED REPRESENTATIVES

Mr. Tse Ping

Ms. Leung Sau Fung, Fanny

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

166 Hennessy Road

Wanchai

Hong Kong

Bank of China (Hong Kong) Limited

1 Garden Road

Hong Kong

Agricultural Bank of China, Lianyungang Branch

No. 43 North Tong-guan Road

Xinpu, Lianyungang

Jiangsu Province

PRC

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:

Morrison & Foerster
33rd Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to Cayman Islands Law:

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

As to PRC Law:

Navigator Law Office
308A, Tower C2
Oriental Plaza No. 1
East Chang An Ave
Dong Cheng Districts
Beijing
PRC

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

Independent Auditors' Report



TO THE SHAREHOLDERS OF SINO BIOPHARMACEUTICAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sino Biopharmaceutical Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 53 to 138, which comprise the consolidated and company statements of financial position as at 31 December, 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made 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.

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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

Independent Auditors' Report

OPINION

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

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre

8 Finance Street

Central

Hong Kong

28 March, 2011

Consolidated Income Statement

Year ended 31 December, 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|---|-------|------------------|--------------------------------|
| REVENUE | 5 | 4,086,144 | 3,234,975 |
| Cost of sales | | (784,858) | (639,636) |
| Gross profit | | 3,301,286 | 2,595,339 |
| Other income and gains | 5 | 243,391 | 61,899 |
| Selling and distribution costs | | (1,677,386) | (1,287,499) |
| Administrative expenses | | (539,866) | (416,852) |
| Other expenses | | (232,680) | (151,568) |
| Finance cost | 7 | (5,804) | (2,773) |
| Share of (loss)/profit of an associate | 20 | (1,426) | 929 |
| PROFIT BEFORE TAX | 6 | 1,087,515 | 799,475 |
| Income tax expense | 10 | (228,146) | (135,028) |
| PROFIT FOR THE YEAR | | 859,369 | 664,447 |
| Profit attributable to: | | | |
| Owners of the parent | 11 | 566,897 | 396,962 |
| Non-controlling interests | | 292,472 | 267,485 |
| | | 859,369 | 664,447 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 13 | | |
| Basic | | HK11.68cents | HK8.77cents |
| Diluted | | N/A | N/A |

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December, 2010

| | Note | 2010 HK\$'000 | 2009 HK\$'000 |
|---|------|------------------|------------------|
| PROFIT FOR THE YEAR | | 859,369 | 664,447 |
| OTHER COMPREHENSIVE INCOME | | | |
| Gains on property revaluation | | 41,080 | 38,081 |
| Income tax effect | | (7,160) | (8,502) |
| | | 33,920 | 29,579 |
| Exchange differences on translation of foreign operations | | 94,252 | (9,426) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | 128,172 | 20,153 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 987,541 | 684,600 |
| Attributable to: | | | |
| Owners of the parent | 11 | 662,847 | 415,218 |
| Non-controlling interests | | 324,694 | 269,382 |
| | | 987,541 | 684,600 |

Consolidated Statement of Financial Position

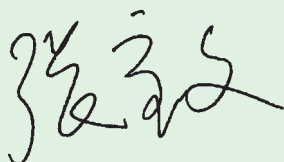
31 December, 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 1,242,999 | 895,289 |
| Prepaid land lease payments | 15 | 140,907 | 77,675 |
| Goodwill | 16 | 67,308 | 47,684 |
| Other intangible assets | 17 | 65,156 | 55,034 |
| Investment in an associate | 20 | 29,338 | 6,918 |
| Available-for-sale investments | 21 | 29,820 | 29,820 |
| Deferred tax assets | 31 | 15,589 | 14,072 |
| Total non-current assets | | 1,591,117 | 1,126,492 |
| CURRENT ASSETS | | | |
| Inventories | 22 | 369,158 | 211,368 |
| Trade receivables | 23 | 625,908 | 479,034 |
| Prepayments, deposits and other receivables | 24 | 97,693 | 64,916 |
| Equity investments at fair value through profit or loss | 25 | 491,223 | 53,898 |
| Due from related companies | 38(c) | 107,242 | 3,300 |
| Cash and bank balances | 26 | 2,338,495 | 1,827,313 |
| Total current assets | | 4,029,719 | 2,639,829 |
| CURRENT LIABILITIES | | | |
| Trade payables | 27 | 159,515 | 123,092 |
| Other payables and accruals | 28 | 851,492 | 526,793 |
| Interest-bearing bank borrowings | 29 | 28,236 | 1,136 |
| Tax payable | | 53,472 | 33,236 |
| Due to related companies | 38(c) | 2,845 | 2,747 |
| Total current liabilities | | 1,095,560 | 687,004 |
| NET CURRENT ASSETS | | 2,934,159 | 1,952,825 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 4,525,276 | 3,079,317 |

Consolidated Statement of Financial Position (Continued)

31 December, 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT LIABILITIES | | | |
| Deferred government grants | 30 | 25,747 | 10,581 |
| Interest-bearing bank borrowings | 29 | 127,062 | - |
| Deferred tax liabilities | 31 | 70,919 | 40,792 |
| Total non-current liabilities | | 223,728 | 51,373 |
| Net assets | | 4,301,548 | 3,027,944 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 32 | 123,916 | 113,198 |
| Reserves | 34(a) | 3,424,636 | 2,265,491 |
| Proposed final dividend | 12 | 99,133 | 95,659 |
| | | 3,647,685 | 2,474,348 |
| Non-controlling interests | | 653,863 | 553,596 |
| Total equity | | 4,301,548 | 3,027,944 |



Zhang Baowen
Director



Xu Xiaoyang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December, 2010

Attributable to owners of the parent

| Notes | Issued | Share | Capital | Asset | Contributed | Reserve | Exchange | Retained | Proposed | Non- | | Total |
|---|-----------|----------|----------|-------------|-------------|--------------|-------------|------------|-----------|-----------|-------------|-----------|
| | capital | premium | reserve | revaluation | surplus | funds | fluctuation | profits | final | Total | controlling | equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (note 32) | | | | | (note 34(a)) | | | (note 12) | | | |
| At 1 January, 2009 | 56,599 | 281,846 | 16,622 | 17,505 | 20,743 | 152,716 | 78,632 | 1,558,986 | 45,279 | 2,228,928 | 423,006 | 2,651,934 |
| Profit for the year | - | - | - | - | - | - | - | 396,962 | - | 396,962 | 267,485 | 664,447 |
| Other comprehensive income for the year | | | | | | | | | | | | |
| Surplus on revaluation of buildings | - | - | - | 17,221 | - | - | - | - | - | 17,221 | 12,358 | 29,579 |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | 1,035 | - | - | 1,035 | (10,461) | (9,426) |
| Total comprehensive income for the year | - | - | - | 17,221 | - | - | 1,035 | 396,962 | - | 415,218 | 269,382 | 684,600 |
| Dividend paid to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | (138,792) | (138,792) |
| Final 2008 dividend declared | - | - | - | - | - | - | - | - | (45,279) | (45,279) | - | (45,279) |
| Issue of bonus shares | 56,599 | (56,599) | - | - | - | - | - | - | - | - | - | - |
| Interim 2009 dividend paid | 12 | - | - | - | - | - | - | (124,519) | - | (124,519) | - | (124,519) |
| Proposed final 2009 dividend | 12 | - | - | - | - | - | - | (95,659) | 95,659 | - | - | - |
| Transfer from retained profits | - | - | - | - | - | 66,939 | - | (66,939) | - | - | - | - |
| At 31 December, 2009 | 113,198 | 225,247* | 16,622* | 34,726* | 20,743* | 219,655* | 79,667* | 1,668,831* | 95,659 | 2,474,348 | 553,596 | 3,027,944 |

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December, 2010

| | | Attributable to owners of the parent | | | | | | | | | | |
|--|-----------|--------------------------------------|------------|-------------|-------------|--------------|-------------|------------|-----------|-----------|-------------|-----------|
| Notes | Issued | Share | Capital | Asset | Contributed | Reserve | Exchange | Retained | Proposed | Non- | | Total |
| | capital | premium | reserve | revaluation | surplus | funds | fluctuation | profits | final | Total | controlling | equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (note 32) | | | | | (note 34(a)) | | | (note 12) | | | |
| At 1 January, 2010 | 113,198 | 225,247 | 16,622 | 34,726 | 20,743 | 219,655 | 79,667 | 1,668,831 | 95,659 | 2,474,348 | 553,596 | 3,027,944 |
| Profit for the year | - | - | - | - | - | - | - | 566,897 | - | 566,897 | 292,472 | 859,369 |
| Other comprehensive income for the year | | | | | | | | | | | | |
| Surplus on revaluation of buildings | - | - | - | 23,651 | - | - | - | - | - | 23,651 | 10,269 | 33,920 |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | 72,299 | - | - | 72,299 | 21,953 | 94,252 |
| Total comprehensive income for the year | - | - | - | 23,651 | - | - | 72,299 | 566,897 | - | 662,847 | 324,694 | 987,541 |
| Acquisition of a subsidiary | 35 | - | - | - | - | - | - | - | - | - | 43,824 | 43,824 |
| Acquisition of non-controlling interests | 18 | - | - | (217,825) | - | - | - | - | - | (217,825) | (69,006) | (286,831) |
| Deemed contribution by shareholders to a jointly controlled entity | | - | - | 22,872 | - | - | - | - | - | 22,872 | - | 22,872 |
| Disposal of 1.4% equity interests in a jointly controlled entity | | - | - | (32) | - | (3,714) | 623 | (5,857) | - | (8,980) | - | (8,980) |
| Dividends paid to non-controlling shareholders | | - | - | - | - | - | - | - | - | - | (199,245) | (199,245) |
| Final 2009 dividend declared | 12 | - | - | - | - | - | - | - | (95,659) | (95,659) | - | (95,659) |
| Issue of shares | 32 | 11,000 | 1,126,765 | - | - | - | - | - | - | 1,137,765 | - | 1,137,765 |
| Cancellation of shares | 32 | (282) | (33,928) | - | - | - | - | - | - | (34,210) | - | (34,210) |
| Interim 2010 dividend | 12 | - | - | - | - | - | - | (293,473) | - | (293,473) | - | (293,473) |
| Proposed final 2010 dividend | 12 | - | - | - | - | - | - | (99,133) | 99,133 | - | - | - |
| Transfer from retained profits | | - | - | - | - | 94,808 | - | (94,808) | - | - | - | - |
| At 31 December, 2010 | 123,916 | 1,318,084* | (178,363)* | 58,377* | 20,743* | 310,749* | 152,589* | 1,742,457* | 99,133 | 3,647,685 | 653,863 | 4,301,548 |

* These reserve accounts comprise the consolidated reserves of HK\$3,424,636,000 (2009: HK\$2,265,491,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December, 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 1,087,515 | 799,475 |
| Adjustments for: | | | |
| Finance costs | 7 | 5,804 | 2,773 |
| Share of loss/(profit) of an associate | 20 | 1,426 | (929) |
| Interest income | 5 | (18,597) | (15,460) |
| Dividend income | 5 | (11,182) | (8,674) |
| Depreciation | 14 | 82,244 | 58,377 |
| Revaluation deficit/(surplus) of property, plant and equipment | 6/14 | 559 | (1,008) |
| Recognition of prepaid land lease payments | 15 | 2,465 | 1,834 |
| Amortisation of other intangible assets | 17 | 3,422 | 1,884 |
| Write off of other intangible assets | 17 | 278 | 598 |
| Loss on disposal of items of property, plant and equipment | 6 | 5,730 | 7,537 |
| Fair value gains (net) of equity investments at fair value through profit or loss | 5/6 | (181,836) | (4,862) |
| Gain on disposal of available-for-sale investments | 5 | - | (793) |
| Loss on disposal of 1.4% equity interests in a jointly controlled entity | 6 | 1,084 | - |
| | | 978,912 | 840,752 |
| Increase in inventories | | (141,585) | (26,124) |
| Increase in trade receivables | | (113,943) | (119,746) |
| Increase in prepayments, deposits and other receivables | | (31,976) | (28,097) |
| Increase in equity investments at fair value through profit or loss | | (255,489) | (49,036) |
| Increase in amounts due from related companies | | (104,049) | (877) |
| Increase in trade payables | | 26,650 | 48,679 |
| Increase in other payables and accruals | | 313,856 | 158,463 |
| Increase in deferred government grants | | 15,166 | 2,699 |
| Increase/(Decrease) in amounts due to related companies | | 98 | (8,540) |
| Cash generated from operations | | 687,640 | 818,173 |
| Profits tax paid | | (184,969) | (131,481) |
| Net cash flows from operating activities | | 502,671 | 686,692 |

Consolidated Statement of Cash Flows (continued)

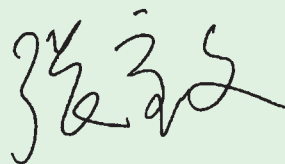
Year ended 31 December, 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|--|-------|------------------|------------------|
| Net cash flows from operating activities | | 502,671 | 686,692 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 18,597 | 15,460 |
| Dividend received | | 11,182 | 8,674 |
| Purchases of items of property, plant and equipment | | (361,706) | (340,394) |
| Increase in prepaid land lease payments | | (65,052) | - |
| Proceeds from disposal of items of property, plant and equipment | | 46,174 | 2,340 |
| Additions to other intangible assets | 17 | (12,216) | (13,699) |
| Proceeds from sales of available-for-sale investments | | - | 21,056 |
| Acquisition of a subsidiary | 35 | (43,322) | - |
| Acquisition of non-controlling interests | | (286,831) | - |
| Acquisition of an associate | 20 | (23,905) | (5,989) |
| Disposal of 1.4% equity interests in a jointly controlled entity | | 1,431 | - |
| Increase in time deposits with original maturity of more than three months | | (631,040) | (8,055) |
| Net cash flows used in investing activities | | (1,346,688) | (320,607) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | 1,137,765 | - |
| Cancellation of shares | | (34,210) | - |
| Interest paid | | (5,804) | (2,773) |
| Dividends paid | | (389,132) | (169,798) |
| Dividends paid to non-controlling interests | | (199,245) | (138,792) |
| New bank loans | | 139,027 | - |
| Repayment of bank loans | | (1,136) | (101,086) |
| Net cash from/(used in) financing activities | | 647,265 | (412,449) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | (196,752) | (46,364) |
| Cash and cash equivalents at beginning of year | | 1,738,980 | 1,794,727 |
| Effect of foreign exchange rate changes, net | | 76,894 | (9,383) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | |
| | | 1,619,122 | 1,738,980 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances, unrestricted | 26 | 920,947 | 408,542 |
| Time deposits with original maturity of less than three months when acquired | 26 | 698,175 | 1,330,438 |
| Cash and cash equivalents as stated in the statement of cash flows | | 1,619,122 | 1,738,980 |

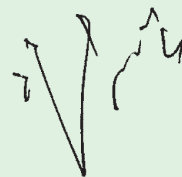
Statement of Financial Position

31 December, 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 4,751 | 5,579 |
| Investments in subsidiaries | 18 | 686,519 | 101,519 |
| Investments in associates | 20 | 23,278 | – |
| Total non-current assets | | 714,548 | 107,098 |
| CURRENT ASSETS | | | |
| Due from subsidiaries | 18 | 546,227 | 135,449 |
| Prepayments, deposits and other receivables | 24 | 15,110 | 2,405 |
| Equity investments at fair value through profit and loss | 25 | 110,823 | 53,898 |
| Cash and bank balances | 26 | 852,283 | 1,171,041 |
| Total current assets | | 1,524,443 | 1,362,793 |
| CURRENT LIABILITIES | | | |
| Due to subsidiaries | 18 | 200,315 | 124,019 |
| Other payables and accruals | 28 | 25,352 | 24,734 |
| Total current liabilities | | 225,667 | 148,753 |
| NET CURRENT ASSETS | | 1,298,776 | 1,214,040 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,013,324 | 1,321,138 |
| Net assets | | 2,013,324 | 1,321,138 |
| EQUITY | | | |
| Issued capital | 32 | 123,916 | 113,198 |
| Reserves | 34(b) | 1,790,275 | 1,112,281 |
| Proposed final dividends | 12 | 99,133 | 95,659 |
| Total equity | | 2,013,324 | 1,321,138 |



Zhang Baowen
Director



Xu Xiaoyang
Director

Notes to Financial Statements

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the Main Board on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings and equity investments, which have been measured at fair value, as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January, 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December, 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notes to Financial Statements

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January, 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January, 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January, 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| HKFRS 1 (Revised) | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> |
| HKFRS 1 Amendments | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> |
| HKFRS 2 Amendments | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> |
| HKFRS 3 (Revised) | <i>Business Combinations</i> |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> |
| HKAS 39 Amendment | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> |
| HK(IFRIC)-Int 17 | <i>Distributions of Non-cash Assets to Owners</i> |
| HKFRS 5 Amendments included in <i>Improvements to HKFRSs issued in October 2008</i> | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i> |
| <i>Improvements to HKFRSs 2009</i> | <i>Amendments to a number of HKFRSs issued in May 2009</i> |
| HK Interpretation 4 Amendment | <i>Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> |
| HK Interpretation 5 | <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i> |

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January, 2010.

(b) Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|-----------------------------|--|
| HKFRS 1 Amendment | Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ² |
| HKFRS 1 Amendment | Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ⁴ |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ⁴ |
| HKFRS 9 | <i>Financial Instruments</i> ⁶ |
| HKAS 12 Amendment | Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ⁵ |
| HKAS 24 (Revised) | <i>Related Party Disclosures</i> ³ |
| HKAS 32 Amendment | Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹ |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³ |
| HK(IFRIC)-Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> ² |

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July, 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January, 2011 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 February, 2010

² Effective for annual periods beginning on or after 1 July, 2010

³ Effective for annual periods beginning on or after 1 January, 2011

⁴ Effective for annual periods beginning on or after 1 July, 2011

⁵ Effective for annual periods beginning on or after 1 January, 2012

⁶ Effective for annual periods beginning on or after 1 January, 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”) and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January, 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January, 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January, 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- (a) *HKFRS 3 Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the scope of the measurement choices of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) *HKAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) *HKAS 27 Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July, 2009 or earlier if HKAS 27 is applied earlier.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations from 1 January, 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which 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. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January, 2010 (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January, 2010

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January, 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in the prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Valuations are performed on buildings frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of buildings are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|------------------------|--------|
| Buildings | 4%-5% |
| Leasehold improvements | 5%-20% |
| Plant and machinery | 5%-9% |
| Motor vehicles | 9%-18% |
| Furniture and fixtures | 18% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash balances, pledged deposits, trade and other receivables, amounts due from related companies, and available for sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables or available-for-sale financial assets depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in the category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, deposits received, amounts due to related companies and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when there is a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November, 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Pension schemes

The Company and the Group's subsidiaries which operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries and jointly-controlled entity which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries and jointly controlled entity are required to contribute 20-23% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly-controlled entity are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entity which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries. The Group considers that the deferred tax assets are recognised to the extent that it is probable that the subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets at 31 December, 2010 was HK\$70,574,000 (2009: HK\$41,932,000). More details are given in note 31.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December, 2010 was HK\$67,308,000 (2009: HK\$47,684,000). More details are given in note 16.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December, 2010, the best estimate of the carrying amount of capitalised development costs was HK\$56,450,000 (2009: HK\$48,671,000). More details are given in note 17.

Assessment of useful lives of deferred development costs

In assessing the estimated useful lives of deferred development costs, the Group takes into account factors such as the expected life span of the underlying pharmaceutical products based on past experience or from a change in the market demand for the products. The estimation of the useful lives is based on the experience of management.

Notes to Financial Statements

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable segments as follows:

- (a) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine products and western medicine products;
- (b) the investment segment is engaged in long term and short term investment; and
- (c) the “others” segment comprises, principally, the Group’s research and development sector which provide services to third parties.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

Segment assets exclude deferred tax assets and investment in an associate as these assets are managed on a group basis.

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December, 2010 | Modernised Chinese medicines & chemical medicines HK\$'000 | Investment HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|-----------------------------------|---|------------------------|--------------------|-------------------|
| Segment revenue: | | | | |
| Sales to external customers | 4,085,215 | – | 929 | 4,086,144 |
| Total | 4,085,215 | – | 929 | 4,086,144 |
| Segment results | 1,105,474 | 155,204 | (5,709) | 1,254,969 |
| <i>Reconciliation:</i> | | | | |
| Interest and unallocated gains | | | | 21,669 |
| Share of loss of an associate | | | | (1,426) |
| Unallocated expenses | | | | (187,697) |
| Profit before tax | | | | 1,087,515 |
| Income tax expense | | | | (228,146) |
| Profit for the year | | | | 859,369 |
| Assets and liabilities | | | | |
| Segment assets | 4,719,189 | 825,100 | 31,620 | 5,575,909 |
| <i>Reconciliation:</i> | | | | |
| Investment in an associate | | | | 29,338 |
| Other unallocated assets | | | | 15,589 |
| Total assets | | | | 5,620,836 |
| Segment liabilities | 1,092,372 | 98,522 | 4,003 | 1,194,897 |
| <i>Reconciliation:</i> | | | | |
| Other unallocated liabilities | | | | 124,391 |
| Total liabilities | | | | 1,319,288 |
| Other segment information: | | | | |
| Depreciation and amortisation | 85,524 | 23 | 2,584 | 88,131 |
| Capital expenditure | 438,622 | 322 | 30 | 438,974 |
| Other non-cash expenses | 5,730 | – | – | 5,730 |

Notes to Financial Statements

4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December, 2009 (<i>Restated</i>) | Modernised Chinese medicines & chemical medicines HK\$'000 | Investment HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|--|---|------------------------|--------------------|-------------------|
| Segment revenue: | | | | |
| Sales to external customers | 3,231,327 | – | 3,648 | 3,234,975 |
| Total | 3,231,327 | – | 3,648 | 3,234,975 |
| Segment results | 853,535 | 14,353 | (14,920) | 852,968 |
| <i>Reconciliation:</i> | | | | |
| Interest and unallocated gains | | | | 21,436 |
| Share of profit of an associate | | | | 929 |
| Unallocated expenses | | | | (75,858) |
| Profit before tax | | | | 799,475 |
| Income tax expense | | | | (135,028) |
| Profit for the year | | | | 664,447 |
| Assets and liabilities | | | | |
| Segment assets | 3,664,865 | 38,717 | 41,749 | 3,745,331 |
| <i>Reconciliation:</i> | | | | |
| Investment in an associate | | | | 6,918 |
| Other unallocated assets | | | | 14,072 |
| Total assets | | | | 3,766,321 |
| Segment liabilities | 663,296 | – | 1,053 | 664,349 |
| <i>Reconciliation:</i> | | | | |
| Other unallocated liabilities | | | | 74,028 |
| Total liabilities | | | | 738,377 |
| Other segment information: | | | | |
| Depreciation and amortisation | 59,822 | – | 2,273 | 62,095 |
| Capital expenditure | 352,096 | – | 1,997 | 354,093 |
| Other non-cash expenses | 7,537 | – | – | 7,537 |

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

No information about a major customer is presented as no single customer contributes to over 10% of the Group's revenue for the years ended 31 December, 2009 and 2010.

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

| | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|--|------------------|--------------------------------|
| Revenue | | |
| Sale of goods | 4,086,144 | 3,234,975 |
| Other income | | |
| Bank interest income | 18,597 | 15,460 |
| Dividend income | 11,182 | 8,674 |
| Government grants* | 17,483 | 12,130 |
| Sale of scrap materials | 10,658 | 12,996 |
| Revaluation surplus of property, plant and equipment | – | 1,008 |
| Others | 3,072 | 5,976 |
| | 60,992 | 56,244 |
| Gains | | |
| Gain on disposal of items of property, plant and equipment | 563 | – |
| Fair value gains | | |
| Equity investments at fair value through profit or loss | | |
| – held for trading | 181,836 | 4,862 |
| Gain on disposal of available for sale investments | – | 793 |
| | 182,399 | 5,655 |
| Total other income and gains | 243,391 | 61,899 |

* Various government grants have been received for setting up research activities in Mainland China. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to Financial Statements

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|--|-------|------------------|------------------|
| Cost of inventories sold | | 784,858 | 639,636 |
| Depreciation | 14 | 82,244 | 58,377 |
| Recognition of prepaid land lease payments | 15 | 2,465 | 1,834 |
| Amortisation of other intangible assets* | 17 | 3,422 | 1,884 |
| Write-off of other intangible assets* | 17 | 278 | 598 |
| Research and development costs | | 229,720 | 144,684 |
| Revaluation deficit/(surplus) of property, plant and equipment | | 559 | (1,008) |
| Gain on disposal of items of property, plant and equipment | | (563) | – |
| Loss on disposal of property, plant and equipment | | 6,293 | 7,537 |
| Bank interest income | 5 | (18,597) | (15,460) |
| Dividend income | 5 | (11,182) | (8,674) |
| Loss on disposal of 1.4% equity interests in a jointly controlled entity | | 1,084 | – |
| Fair value gain, net: | | | |
| Equity investments at fair value through profit or loss – held for trading | 5 | (181,836) | (4,862) |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | 10,110 | 8,601 |
| Auditors' remuneration | | 2,757 | 2,316 |
| Employee benefit expense (including directors' remuneration (note 8)): | | | |
| Wages and salaries | | 361,536 | 240,782 |
| Pension scheme contributions ** | | 37,016 | 9,155 |
| | | 398,552 | 249,937 |
| Impairment loss of trade receivables recognised | 23 | 7,353 | 372 |
| Foreign exchange differences, net | | 616 | 1,045 |

Notes:

* The amortisation of patents and licences and deferred development costs for the year is included in "Cost of sales" and "Other expenses" respectively on the face of the consolidated income statement.

** During the year, certain of the subsidiaries in Mainland China were members of pension contribution schemes managed by the respective local governments. Contributions made during the year were based on 20%-23% (2009: 20%-23%) of the employees' salaries and were charged to the consolidated income statement, as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December, 2010 (2009: 5%).

Notes to Financial Statements

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group | |
|--|----------|----------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Interest on bank borrowings wholly repayable within five years | 5,804 | 2,773 |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|----------|----------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Fees | 576 | 458 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 14,048 | 12,668 |
| Pension scheme contributions | 143 | 108 |
| Discretionary bonuses | 9,746 | 8,755 |
| | 23,937 | 21,531 |
| | 24,513 | 21,989 |

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2010 | 2009 |
|-----------------|----------|----------|
| | HK\$'000 | HK\$'000 |
| Mr. Lu Zhengfei | 180 | 150 |
| Mr. Li Dakui | 180 | 110 |
| Ms. Li Jun | 216 | 198 |
| | 576 | 458 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Employee share option benefits HK\$'000 | Pension scheme contributions HK\$'000 | Total remuneration HK\$'000 |
|-----------------------|------------------|--|--------------------------------------|--|--|-----------------------------------|
| 2010 | | | | | | |
| Executive directors: | | | | | | |
| Mr. Tse Ping | – | 5,980 | 8,100 | – | 12 | 14,092 |
| Mr. Zhang Baowen | – | 1,882 | 120 | – | 53 | 2,055 |
| Mr. Xu Xiaoyang | – | 492 | 976 | – | 54 | 1,522 |
| Mr. Tse Hsin | – | 1,001 | – | – | 12 | 1,013 |
| Ms. Cheng Cheung Ling | – | 1,430 | 550 | – | 12 | 1,992 |
| Mr. Tao Huiqi | – | 2,255 | – | – | – | 2,255 |
| Mr. He Huiyu | – | 1,008 | – | – | – | 1,008 |
| | – | 14,048 | 9,746 | – | 143 | 23,937 |
| 2009 | | | | | | |
| Executive directors: | | | | | | |
| Mr. Tse Ping | – | 5,460 | 8,000 | – | 12 | 13,472 |
| Mr. Zhang Baowen | – | 1,715 | – | – | 49 | 1,764 |
| Mr. Xu Xiaoyang | – | 255 | 255 | – | 23 | 533 |
| Mr. Tse Hsin | – | 975 | – | – | 12 | 987 |
| Ms. Cheng Cheung Ling | – | 1,300 | 500 | – | 12 | 1,812 |
| Mr. Tao Huiqi | – | 1,955 | – | – | – | 1,955 |
| Mr. He Huiyu | – | 1,008 | – | – | – | 1,008 |
| | – | 12,668 | 8,755 | – | 108 | 21,531 |

Mr. Xu Xiaoyang was appointed as executive director on 31 March, 2009.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The Group's key management personnel comprises solely of the directors.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2009: five) directors, details of whose remuneration are set out in note 8 above.

Notes to Financial Statements

10. INCOME TAX

Hong Kong profits tax has been provided at a rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

| | 2010 HK\$'000 | 2009 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Group: | | |
| Current – Hong Kong | (362) | 518 |
| Current – Mainland China income tax | 175,660 | 135,628 |
| Deferred tax (note 31) | 52,848 | (1,118) |
| Total tax charge for the year | 228,146 | 135,028 |

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (“JCTT”), Beijing Tide Pharmaceutical Co., Ltd. (“Beijing Tide”), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd (“Jiangsu Fenghai”), Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. and Shanghai Tongyong Pharmaceutical Co., Limited (“Shanghai Tongyong”) are subject to a corporate income tax rate of 15% for three years successively from 2008 because they qualified as a “High and New Technology Enterprise”.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“NJCTT”) is subject to a preferential income tax rate of 15% for three years from 2009 onwards because it was qualified as a “High and New Technology Enterprise”. In addition, pursuant to the transition provisions of the New CIT tax law, NJCTT is entitled to a tax concession period between 2006 to 2010, whereby NJCTT is entitled to a 50% tax exemption on corporate income tax rate in 2010. Hence, NJCTT is subject to a corporate income tax rate of 11% in 2010 (being the lower of 11% (due to a 50% tax exemption) and the preferential tax rate of 15%).

Other than the above-mentioned entities, the other entities located in the Mainland China are subject to a corporate income tax rate of 25% in 2010.

Notes to Financial Statements

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates are as follows:

| Group – 2010 | Mainland China HK\$'000 | Hong Kong HK\$'000 | Total HK\$'000 |
|--|----------------------------|-----------------------|-------------------|
| Profit/(loss) before tax | 1,145,000 | (57,485) | 1,087,515 |
| Tax at the statutory tax rate | 286,250 | (9,485) | 276,765 |
| Less: preferential tax rate reduction | (101,344) | – | (101,344) |
| Income not subject to tax | (2,492) | (8,777) | (11,269) |
| Expenses not deductible for tax | 22,047 | 17,900 | 39,947 |
| Tax losses not recognised | 564 | – | 564 |
| Additional tax deduction | (13,074) | – | (13,074) |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries | – | 36,557 | 36,557 |
| Tax charge at the Group's effective rate | 191,951 | 36,195 | 228,146 |
| Group – 2009 | Mainland China HK\$'000 | Hong Kong HK\$'000 | Total HK\$'000 |
| Profit/(loss) before tax | 883,917 | (84,442) | 799,475 |
| Tax at the statutory tax rate | 220,979 | (13,932) | 207,047 |
| Less: preferential tax rate reduction | (96,148) | – | (96,148) |
| Income not subject to tax | (6,176) | (3,684) | (9,860) |
| Expenses not deductible for tax | 3,623 | 18,131 | 21,754 |
| Tax losses not recognised | 18 | 3 | 21 |
| Tax losses utilised from previous periods | (749) | – | (749) |
| Additional tax deduction | (8,943) | – | (8,943) |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries | – | 21,906 | 21,906 |
| Tax charge at the Group's effective rate | 112,604 | 22,424 | 135,028 |

11. PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO OWNERS OF THE PARENT

The profit from ordinary activities attributable to owners of the parent for the year ended 31 December, 2010 includes a loss of HK\$22,320,000 (2009: loss of HK\$78,929,000) (note 34(b)) which has been dealt with in the financial statements of the Company.

Notes to Financial Statements

12. DIVIDENDS

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Interim – HK\$0.06 (2009: HK\$0.045 (HK\$0.028 after consideration of bonus share issue)) per ordinary share | 293,473 | 124,519 |
| Proposed final – HK\$0.02 (2009: HK\$0.02) per ordinary share | 99,133 | 95,659 |
| | 392,606 | 220,178 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent for the year of HK\$566,897,000 (2009: HK\$396,962,000), and the weighted average number of ordinary shares of 4,854,152,092 (2009: 4,527,937,473) in issue during the year, as adjusted to reflect the issue of shares and cancellation of treasury shares during the year.

Diluted earnings per share amounts for the years ended 31 December, 2010 and 2009 have not been disclosed as no diluting events existed during these years.

Notes to Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT

Group

| | Buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Motor vehicles HK\$'000 | Furniture and fixtures HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|-----------------------|---------------------------------------|------------------------------------|-------------------------------|---------------------------------------|---|-------------------|
| 31 December, 2010 | | | | | | | |
| At 1 January, 2010: | | | | | | | |
| Cost or valuation | 448,540 | 7,819 | 340,664 | 65,968 | 80,990 | 141,627 | 1,085,608 |
| Accumulated depreciation | - | (7,819) | (119,195) | (24,753) | (38,552) | - | (190,319) |
| Net carrying amount | 448,540 | - | 221,469 | 41,215 | 42,438 | 141,627 | 895,289 |
| At 1 January, 2010, net of accumulated depreciation | 448,540 | - | 221,469 | 41,215 | 42,438 | 141,627 | 895,289 |
| Additions | 7,784 | - | 68,220 | 21,235 | 42,477 | 221,990 | 361,706 |
| Depreciation provided during the year | (23,629) | - | (31,756) | (13,097) | (13,762) | - | (82,244) |
| Acquisition of a subsidiary (note 35) | 29,548 | - | 22,673 | - | 2,223 | - | 54,444 |
| Disposal of 1.4% equity interests in a jointly controlled entity | (529) | - | (906) | (44) | (180) | (304) | (1,963) |
| Surplus on revaluation | 40,521 | - | - | - | - | - | 40,521 |
| Disposals | (2,196) | - | (38,476) | (1,804) | (9,428) | - | (51,904) |
| Transfers | 13,852 | - | 24,097 | - | 473 | (38,422) | - |
| Exchange realignment | 10,517 | - | 7,933 | 1,158 | 2,480 | 5,062 | 27,150 |
| At 31 December, 2010, net of accumulated depreciation | 524,408 | - | 273,254 | 48,663 | 66,721 | 329,953 | 1,242,999 |
| At 31 December, 2010: | | | | | | | |
| Cost or valuation | 524,408 | 7,967 | 403,843 | 84,747 | 105,790 | 329,953 | 1,456,708 |
| Accumulated depreciation | - | (7,967) | (130,589) | (36,084) | (39,069) | - | (213,709) |
| Net carrying amount | 524,408 | - | 273,254 | 48,663 | 66,721 | 329,953 | 1,242,999 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | - | 7,967 | 403,843 | 84,747 | 105,790 | 329,953 | 932,300 |
| At valuation | 524,408 | - | - | - | - | - | 524,408 |
| | 524,408 | 7,967 | 403,843 | 84,747 | 105,790 | 329,953 | 1,456,708 |

Notes to Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

| | Buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Motor vehicles HK\$'000 | Furniture and fixtures HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|---|-----------------------|---------------------------------------|------------------------------------|-------------------------------|---------------------------------------|---|-------------------|
| 31 December, 2009 | | | | | | | |
| At 1 January, 2009: | | | | | | | |
| Cost or valuation | 224,619 | 7,819 | 236,885 | 41,728 | 56,496 | 180,133 | 747,680 |
| Accumulated depreciation | – | (7,819) | (100,788) | (20,983) | (33,988) | – | (163,578) |
| Net carrying amount | 224,619 | – | 136,097 | 20,745 | 22,508 | 180,133 | 584,102 |
| At 1 January, 2009, net of accumulated depreciation | 224,619 | – | 136,097 | 20,745 | 22,508 | 180,133 | 584,102 |
| Additions | 560 | – | 31,093 | 28,588 | 24,560 | 255,593 | 340,394 |
| Depreciation provided during the year | (16,441) | – | (25,497) | (7,604) | (8,835) | – | (58,377) |
| Surplus on revaluation | 39,089 | – | – | – | – | – | 39,089 |
| Disposals | – | – | (8,567) | (508) | (802) | – | (9,877) |
| Transfers | 200,726 | – | 88,361 | – | 5,012 | (294,099) | – |
| Exchange realignment | (13) | – | (18) | (6) | (5) | – | (42) |
| At 31 December, 2009, net of accumulated depreciation | 448,540 | – | 221,469 | 41,215 | 42,438 | 141,627 | 895,289 |
| At 31 December, 2009: | | | | | | | |
| Cost or valuation | 448,540 | 7,819 | 340,664 | 65,968 | 80,990 | 141,627 | 1,085,608 |
| Accumulated depreciation | – | (7,819) | (119,195) | (24,753) | (38,552) | – | (190,319) |
| Net carrying amount | 448,540 | – | 221,469 | 41,215 | 42,438 | 141,627 | 895,289 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | – | 7,819 | 340,664 | 65,968 | 80,990 | 141,627 | 637,068 |
| At valuation | 448,540 | – | – | – | – | – | 448,540 |
| | 448,540 | 7,819 | 340,664 | 65,968 | 80,990 | 141,627 | 1,085,608 |

Notes to Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

| | Buildings HK\$'000 | Motor vehicles HK\$'000 | Furniture and fixtures HK\$'000 | Total HK\$'000 |
|--|-----------------------|-------------------------------|---------------------------------------|-------------------|
| 31 December, 2010 | | | | |
| At 1 January, 2010: | | | | |
| Cost | 1,411 | 9,842 | 4,460 | 15,713 |
| Accumulated depreciation | – | (6,613) | (3,521) | (10,134) |
| Net carrying amount | 1,411 | 3,229 | 939 | 5,579 |
| At 1 January, 2010, net of accumulated depreciation | 1,411 | 3,229 | 939 | 5,579 |
| Additions | – | – | 859 | 859 |
| Depreciation provided during the year | (27) | (1,336) | (394) | (1,757) |
| Surplus on revaluation | 83 | – | – | 83 |
| Exchange realignment | 4 | (36) | 19 | (13) |
| At 31 December, 2010, net of accumulated depreciation | 1,471 | 1,857 | 1,423 | 4,751 |
| At 31 December, 2010: | | | | |
| Cost or valuation | 1,471 | 9,842 | 5,319 | 16,632 |
| Accumulated depreciation | – | (7,985) | (3,896) | (11,881) |
| Net carrying amount | 1,471 | 1,857 | 1,423 | 4,751 |
| Analysis of cost or valuation: | | | | |
| At cost | – | 9,842 | 5,319 | 15,161 |
| At valuation | 1,471 | – | – | 1,471 |
| | 1,471 | 9,842 | 5,319 | 16,632 |

Notes to Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

| | Buildings HK\$'000 | Motor vehicles HK\$'000 | Furniture and fixtures HK\$'000 | Total HK\$'000 |
|--|-----------------------|-------------------------------|---------------------------------------|-------------------|
| 31 December, 2009 | | | | |
| At 1 January, 2009: | | | | |
| Cost | 1,411 | 8,134 | 4,230 | 13,775 |
| Accumulated depreciation | – | (5,622) | (2,986) | (8,608) |
| Net carrying amount | 1,411 | 2,512 | 1,244 | 5,167 |
| At 1 January, 2009, net of accumulated depreciation | | | | |
| | 1,411 | 2,512 | 1,244 | 5,167 |
| Additions | – | 1,707 | 234 | 1,941 |
| Depreciation provided during the year | (26) | (987) | (534) | (1,547) |
| Surplus on revaluation | 26 | – | – | 26 |
| Exchange realignment | – | (3) | (5) | (8) |
| At 31 December, 2009, net of accumulated depreciation | | | | |
| | 1,411 | 3,229 | 939 | 5,579 |
| At 31 December, 2009: | | | | |
| Cost or valuation | 1,411 | 9,842 | 4,460 | 15,713 |
| Accumulated depreciation | – | (6,613) | (3,521) | (10,134) |
| Net carrying amount | 1,411 | 3,229 | 939 | 5,579 |
| Analysis of cost or valuation: | | | | |
| At cost | – | 9,842 | 4,460 | 14,302 |
| At valuation | 1,411 | – | – | 1,411 |
| | 1,411 | 9,842 | 4,460 | 15,713 |

The Group's buildings are all situated in Mainland China and are held under medium term leases.

The Group's buildings as at 31 December, 2010 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK\$524,408,000 (2009: HK\$448,540,000) based on their existing use. The revaluation resulted in a surplus of HK\$40,521,000 (2009: HK\$39,089,000). The Group has credited 23,651,000 (2009: a credit of HK\$17,221,000) to the revaluation reserve in the current year. The Group has debited a charge of HK\$559,000 to the income statement in the current year (2009: credit of HK\$1,008,000).

Had the buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$403,928,000 (2009: HK\$367,602,000).

Notes to Financial Statements

15. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Carrying amount at 1 January | 79,509 | 81,341 |
| Additions during the year | 65,052 | – |
| Disposal of 1.4% equity interests in a jointly controlled entity | (166) | – |
| Recognised during the year | (2,465) | (1,834) |
| Exchange realignment | 1,668 | 2 |
| Carrying amount at 31 December | 143,598 | 79,509 |
| Current portion included in prepayments, deposits and other receivables | (2,691) | (1,834) |
| Non-current portion | 140,907 | 77,675 |

The prepaid land lease payments for land use rights are held under medium term leases and the parcels of land are situated in Mainland China.

16. GOODWILL

Group

| | HK\$'000 |
|---|----------|
| 31 December, 2010 | |
| Cost and carrying amount at 1 January, 2010 | 47,684 |
| Acquisition of a subsidiary (note 35) | 19,282 |
| Exchange realignment | 342 |
| Cost and net carrying amount at 31 December, 2010 | 67,308 |
| HK\$'000 | |
| 31 December, 2009 | |
| Cost and net carrying amount at 1 January, 2009 and 31 December, 2009 | 47,684 |

Impairment testing of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill of the Group is related to eight different cash-generating units (“CGUs”), namely Beijing Tide, a jointly-controlled entity, Shanghai Tongyong and six other subsidiaries of the Group. Approximately 58% of the carrying amount of goodwill arose from the acquisition of equity interests in Beijing Tide in the previous years.

Notes to Financial Statements

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amount of the goodwill attributable to the acquisition of equity interests in these CGUs is determined from a value in use calculation using cash flow forecasts based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to these CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2011 and extrapolates cash flows for the following five years based on an estimated average industry growth rate. The rate does not exceed the average long term growth rate for the relevant markets.

Based on the above, the directors consider that there is no impairment of goodwill.

17. OTHER INTANGIBLE ASSETS

Group

| | Patents and licences HK\$'000 | Deferred development costs HK\$'000 | Total HK\$'000 |
|---|-------------------------------------|--|-------------------|
| 31 December, 2010 | | | |
| Cost: | | | |
| At 1 January, 2010 | 12,512 | 49,476 | 61,988 |
| Additions | 3,545 | 8,671 | 12,216 |
| Disposal of 1.4% equity interests in a jointly controlled entity | – | (260) | (260) |
| Written off during the year | – | (278) | (278) |
| Exchange realignment | 707 | 1,509 | 2,216 |
| At 31 December, 2010 | 16,764 | 59,118 | 75,882 |
| Accumulated amortisation: | | | |
| At 1 January, 2010 | 6,149 | 805 | 6,954 |
| Provided during the year | 1,632 | 1,790 | 3,422 |
| Exchange realignment | 277 | 73 | 350 |
| At 31 December, 2010 | 8,058 | 2,668 | 10,726 |
| Net carrying amount | 8,706 | 56,450 | 65,156 |

Notes to Financial Statements

17. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

| | Patents and licences HK\$'000 | Deferred development costs HK\$'000 | Total HK\$'000 |
|-----------------------------|-------------------------------------|--|-------------------|
| 31 December, 2009 | | | |
| Cost: | | | |
| At 1 January, 2009 | 12,432 | 36,455 | 48,887 |
| Additions | 80 | 13,619 | 13,699 |
| Written off during the year | – | (598) | (598) |
| Exchange realignment | – | – | – |
| At 31 December, 2009 | 12,512 | 49,476 | 61,988 |
| Accumulated amortisation: | | | |
| At 1 January, 2009 | 4,567 | 500 | 5,067 |
| Provided during the year | 1,580 | 304 | 1,884 |
| Exchange realignment | 2 | 1 | 3 |
| At 31 December, 2009 | 6,149 | 805 | 6,954 |
| Net carrying amount | 6,363 | 48,671 | 55,034 |

18. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|----------------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Unlisted shares, at cost | 686,519 | 101,519 |
| Due from subsidiaries | 546,227 | 135,449 |
| Due to subsidiaries | (200,315) | (124,019) |
| | 1,032,431 | 112,949 |
| Impairment during the year | – | – |
| | 1,032,431 | 112,949 |

The amounts due from/(to) subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) subsidiaries approximate to their fair values.

Notes to Financial Statements

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

| Company name | Place of incorporation/ registration and operations | Paid-up/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|-----------------------------|--|----------|--|
| | | | Direct | Indirect | |
| Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. (“CT Green Continent”) | PRC/ Mainland China | US\$1,000,000 | – | 75 | Research and development of pharmaceutical products |
| Beijing Chia Tai Green Continent Medicines Co., Ltd. | PRC/ Mainland China | RMB1,000,000 | – | 75 | Manufacture and sale of pharmaceutical products |
| Champion First Investments Limited | British Virgin Islands/ Mainland China | US\$2 Ordinary | 100 | – | Investment holding |
| Chia Tai Healthcare (Holdings) Limited | British Virgin Islands/ Mainland China | US\$100 Ordinary | 100 | – | Investment holding |
| China Biotech & Drug Development Limited | Hong Kong | HK\$100 Ordinary | – | 51 | Research and development of pharmaceutical products |
| Jiangsu Chia Tai – Tianqing Pharmaceutical Co., Ltd. (“JCTT”) | PRC/ Mainland China | RMB203,730,000 | – | 60 | Development, manufacture and distribution of pharmaceutical products |
| Jiangsu Runji Investment Co., Ltd. | PRC/ Mainland China | RMB10,000,000 | – | 60 | Investment holding |
| Magnificent Technology Limited | British Virgin Islands/ Hong Kong | US\$500,000 Ordinary | – | 60 | Investment holding |
| Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“NJCTT”) | PRC/ Mainland China | US\$5,050,000 | – | 55.6 | Manufacture and sale of pharmaceutical products |

Notes to Financial Statements

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows (continued):

| Company name | Place of incorporation/ registration and operations | Paid-up/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|-----------------------------------|---|----------|---|
| | | | Direct | Indirect | |
| Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd. | PRC/ Mainland China | US\$5,000,000 | – | 60 | Manufacture and sale of pharmaceutical products |
| Lianyungang Runzhong Pharmaceutical Co., Ltd. ³ | PRC/ Mainland China | RMB30,000,000 | – | 60 | Manufacture and sale of pharmaceutical products |
| Lianyungang Chia Tai Tianqing Medicines Co., Ltd. (“LYG Tianqing”) | PRC/ Mainland China | US\$970,000 | – | 60 | Distribution of pharmaceutical products |
| Chia Tai Refined Chemical Industry Limited (“CTRC”) | Hong Kong | HK\$2 Ordinary | 100 | – | Investment holding |
| Evon Industries Limited | Hong Kong | HK\$2 Ordinary | 100 | – | Property holding |
| Fine Enterprise Investment Limited | Hong Kong | HK\$1 Ordinary | 100 | – | Investment holding |
| Sino Biopharmaceutical (Tianjin) Co., Ltd. | Hong Kong | HK\$1 Ordinary | 100 | – | Investment holding |
| Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. (“Jiangsu Qingjiang”) | PRC/ Mainland China | RMB48,960,000 | – | 55.6 | Manufacture and sale of pharmaceutical products |
| Jiangsu Chia Tai Qingjiang Medicines Co., Ltd. ² | PRC/ Mainland China | RMB20,000,000 | – | 55.6 | Manufacture and sale of pharmaceutical products |
| Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. (“Jiangsu Fenghai”) ⁶ | PRC/ Mainland China | US\$9,363,500 | – | 60.9 | Manufacture and sale of pharmaceutical products |

Notes to Financial Statements

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows (continued):

| Company name | Place of incorporation/ registration and operations | Paid-up/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|-----------------------------------|---|----------|---|
| | | | Direct | Indirect | |
| Jiangsu Chia Tai Fenghai Medicines Co., Ltd. | PRC/ Mainland China | RMB20,000,000 | – | 60.9 | Distribution of pharmaceutical products |
| Nanjing Chia Tai Fenghai Medicines Technology Co., Ltd. | PRC/ Mainland China | RMB500,000 | – | 60.9 | Manufacture and sale of pharmaceutical products |
| Yancheng Suhai Pharmaceutical Co., Ltd. ("Yancheng Suhai") ⁶ | PRC/ Mainland China | RMB9,281,900 | – | 60.9 | Manufacture and sale of pharmaceutical products |
| Chia Tai Wing Fuk Limited | Hong Kong | HK\$1 Ordinary | 100 | – | Investment holding |
| Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. | PRC/ Mainland China | US\$7,560,000 | – | 51 | Manufacture and sale of pharmaceutical products |
| Qingdao Heng Seng Tang Pharmacy Co., Ltd. | PRC/ Mainland China | RMB1,250,000 | – | 51 | Retail of pharmaceutical products |
| Qingdao Chia Tai Haier Medicines Co., Ltd. | PRC/ Mainland China | RMB5,000,000 | – | 51 | Sale of pharmaceutical products |
| Talent Forward Limited | Hong Kong | HK\$1 Ordinary | 100 | – | Investment holding |
| Sino Biopharmaceutical (Beijing) Limited | Hong Kong | HK\$1 Ordinary | 100 | – | Investment holding |
| Chia Tai Pharmaceutical (Lianyungang) Company Limited | Hong Kong | HK\$1 Ordinary | 100 | – | Investment holding |

Notes to Financial Statements

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows (continued):

| Company name | Place of incorporation/ registration and operations | Paid-up/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|-----------------------------------|---|----------|---|
| | | | Direct | Indirect | |
| Lucky Symbol Holdings Limited ("Lucky Symbol") ⁵ | Hong Kong | HK\$1 Ordinary | 100 | – | Investment holding |
| Ace Elite Investments Limited ("Ace Elite") ⁶ | Hong Kong | HK\$10 Ordinary | – | 100 | Investment holding |
| Shanghai Tongyong Pharmaceutical Co., Ltd. ("Shanghai Tongyong") ⁴ | PRC/ Mainland China | RMB40,000,000 | – | 55 | Manufacture and sale of pharmaceutical products |
| Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. ¹ | PRC/ Mainland China | US\$75,000,000 | 100 | – | Investment holding |

Notes:

- On 29 January, 2010, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd.
- On 26 May, 2010, Jiangsu Qingjiang established a wholly-owned subsidiary, Jiangsu Chia Tai Qingjiang Medicines Co., Ltd.
- On 20 October, 2010, JCTT established a wholly-owned subsidiary, Lianyungang Runzhong Pharmaceutical Co., Ltd.
- On 22 October, 2010, Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd., through the acquisition of equity interests from the existing equity holders, has completed the acquisition of 55% equity interests in Shanghai Tongyong (see note 35).
- On 2 November, 2010, Sino Biopharmaceutical Limited established a wholly-owned subsidiary, Lucky Symbol.
- On 21 December, 2010, Lucky Symbol acquired 100% equity interest in Ace Elite, which holds 25% equity interests in Jiangsu Fenghai and 25% equity interests in Yancheng Suhai, respectively, for a cash consideration of RMB201,704,000 (approximately HK\$231,657,000). On 29 December, 2010, Chia Tai Pharmaceutical (Lianyungang) Company Limited acquired 5.31% equity in Jiangsu Fenghai and Yancheng Suhai for a cash consideration of RMB42,842,000 (approximately HK\$49,204,000) in aggregate. Details of these acquisitions are set out in the Company's press announcement dated 30 November, 2010.

Notes to Financial Statements

19. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

The investment in a jointly controlled entity, Beijing Tide is indirectly held, in which the Group holds a 33.6% (2009: 35%) equity interest therein. Beijing Tide is registered in the PRC with a registered capital of RMB500,000,000. The Group's percentage of voting power and percentage of profit sharing is equivalent to its equity interest. The principal activities of Beijing Tide are the manufacture and sale of pharmaceutical products.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Share of the jointly-controlled entity's assets and liabilities: | | |
| Current assets | 325,346 | 221,849 |
| Non-current assets | 84,849 | 66,952 |
| Current liabilities | (29,937) | (18,489) |
| Non-current liabilities | (1,779) | (1,790) |
| Net assets | 378,479 | 268,522 |
| Share of the jointly-controlled entity's results: | | |
| Turnover | 467,371 | 332,809 |
| Other revenue | 7,372 | 1,791 |
| Total revenue | 474,743 | 334,600 |
| Total expenses | (293,260) | (151,887) |
| Tax | (36,314) | (28,879) |
| Profit after tax | 145,169 | 153,834 |

20. INVESTMENT IN AN ASSOCIATE

| | Group | | Company | |
|---------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Share of net assets | 29,338 | 6,918 | 23,278 | – |

Investment in an associate as at 31 December, 2010 represented the Group's 11.38% (2009: 6.72%) equity interest in LTT Bio-Pharma Co., Ltd. ("LTT"). The Company acquired 4.93% equity interests in LTT for a consideration of HK\$23,905,000 during the year. The Group's share of loss of an associate for the year was HK\$1,426,000 (2009: share of profit of HK\$929,000).

Notes to Financial Statements

20. INVESTMENT IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation/ registration | Percentage of ownership interest attributable to the Group | Principal activities |
|---------------------------|-----------------------------------|--------------------------------------|--|---|
| LTT Bio-Pharma Co., Ltd.* | Ordinary shares | Japan | 11.38% | Manufacture and sale of pharmaceutical products |

* Not audited by Ernst & Young Hong Kong, or another member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

| | 2010 HK\$'000 |
|----------------|------------------|
| Assets | 110,755 |
| Liabilities | 4,363 |
| Revenues | 10,541 |
| Loss after tax | (12,384) |

21. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Unlisted equity investments, at cost | 29,820 | 29,820 | – | – |
| | 29,820 | 29,820 | – | – |

The unlisted equity investments comprised the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily made from natural herbal ingredients in Mainland China.

The unlisted equity investments are stated at cost less any impairment losses because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

Notes to Financial Statements

22. INVENTORIES

| | Group | |
|-----------------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Raw materials | 125,143 | 76,868 |
| Work in progress | 91,651 | 72,170 |
| Finished goods | 150,219 | 62,029 |
| Spare parts and consumables | 2,145 | 301 |
| | 369,158 | 211,368 |

23. TRADE RECEIVABLES

| | Group | |
|-------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Trade receivables | 639,740 | 485,839 |
| Impairment | (13,832) | (6,805) |
| | 625,908 | 479,034 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period ranges from 60 days to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | Group | |
|---------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Current to 90 days | 558,643 | 458,955 |
| 91 days to 180 days | 60,329 | 19,397 |
| Over 180 days | 6,936 | 682 |
| | 625,908 | 479,034 |

Notes to Financial Statements

23. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| At 1 January | 6,805 | 6,433 |
| Impairment losses recognised (note 6) | 7,353 | 372 |
| Amount written off as uncollectible | (570) | – |
| Exchange realignment | 244 | – |
| | 13,832 | 6,805 |

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Neither past due nor impaired | 613,044 | 458,076 |
| Less than 30 days past due | 12,712 | 11,489 |
| Between 31 to 90 days past due | 140 | 6,598 |
| Between 91 to 180 days past due | 12 | 2,618 |
| Between 181 days to 365 days past due | – | 253 |
| | 625,908 | 479,034 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

The carrying amount of the trade receivables approximates to their fair value due to their relatively short maturity term.

Notes to Financial Statements

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Prepayments | 32,867 | 26,192 | – | – |
| Other receivables | 60,330 | 34,926 | 13,776 | 1,176 |
| Prepaid expenses | 1,805 | 1,964 | 1,334 | 1,229 |
| Current portion of prepaid land lease payments | 2,691 | 1,834 | – | – |
| | 97,693 | 64,916 | 15,110 | 2,405 |

The carrying amounts of the prepayments, other receivables and prepaid expenses approximate to their fair values due to their relatively short maturity term.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Listed equity investments, at market value: | | | | |
| Hong Kong | 110,823 | 47,960 | 110,823 | 47,960 |
| Elsewhere | 380,400 | 5,938 | – | 5,938 |
| | 491,223 | 53,898 | 110,823 | 53,898 |

The above equity investments at 31 December, 2010 were classified as held for trading.

26. CASH AND BANK BALANCES

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Cash and bank balances, unrestricted | 920,947 | 408,542 | 116,849 | 10,571 |
| Time deposits with original maturity of less than three months | 698,175 | 1,330,438 | 84,277 | 1,145,706 |
| Time deposits with original maturity of more than three months | 719,373 | 88,333 | 651,157 | 14,764 |
| Cash and bank balances | 2,338,495 | 1,827,313 | 852,283 | 1,171,041 |

Notes to Financial Statements

26. CASH AND BANK BALANCES (continued)

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi (“RMB”) amounted to HK\$778,307,000 (2009: HK\$626,656,000). The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

27. TRADE PAYABLES

An aged analysis of the Group’s trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | Group | |
|---------------------|------------------|------------------|
| | 2010 HK\$’000 | 2009 HK\$’000 |
| Current to 90 days | 138,569 | 102,868 |
| 91 days to 180 days | 14,530 | 11,338 |
| Over 180 days | 6,416 | 8,886 |
| | 159,515 | 123,092 |

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade payables approximate to their fair values due to their relatively short maturity term.

28. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$’000 | 2009 HK\$’000 | 2010 HK\$’000 | 2009 HK\$’000 |
| Advances from customers | 15,805 | 7,186 | – | – |
| Accrued payroll and bonuses | 162,045 | 152,499 | 19,832 | 18,585 |
| Other payables | 410,597 | 214,597 | 5,479 | 3,325 |
| Housing funds | 410 | 518 | – | – |
| Accrued expenses | 196,752 | 103,538 | – | 2,660 |
| Staff welfare and bonus fund | 23,626 | 11,514 | 9 | 8 |
| Tax payable other than profits tax | 42,257 | 36,941 | 32 | 156 |
| | 851,492 | 526,793 | 25,352 | 24,734 |

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of the other payables and accruals approximate to their fair values due to their relatively short maturity term.

Notes to Financial Statements

29. INTEREST-BEARING BANK BORROWINGS

Group

| | 2010 | | | 2009 | | |
|--|-----------------------------|----------|----------------|-----------------------------|----------|--------------|
| | Effective interest rate (%) | Maturity | HK\$'000 | Effective interest rate (%) | Maturity | HK\$'000 |
| Current | | | | | | |
| Bank loans – unsecured | 5.004-5.31 | 2011 | 28,236 | 4.86 | 2010 | 1,136 |
| Non-current | | | | | | |
| Bank loans – unsecured | 0.3-4.86 | 2013 | 127,062 | – | – | – |
| | | | <u>155,298</u> | | | <u>1,136</u> |
| Analysed into: | | | | | | |
| Bank loans repayable: | | | | | | |
| Within one year or on demand | | | 28,236 | | | 1,136 |
| In the second year | | | – | | | – |
| In the third to fifth years, inclusive | | | <u>127,062</u> | | | <u>–</u> |
| | | | <u>155,298</u> | | | <u>1,136</u> |

The Group's bank borrowings are denominated in Renminbi.

The Group's bank borrowings bear floating interest according to the benchmark lending rate announced by the People's Bank of China over the same period, at 0.3%-5.31% per annum during the year 2010 (2009: 4.86%).

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values.

30. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented grants received for projects which are expected to take place beyond 2011.

Notes to Financial Statements

31. DEFERRED TAX

Deferred tax liabilities

Group

2010

| | Development costs HK\$'000 | Revaluation of properties HK\$'000 | Withholding taxes HK\$'000 | Equity investments HK\$'000 | Total HK\$'000 |
|---|-------------------------------|---------------------------------------|-------------------------------|--------------------------------|-------------------|
| At 1 January, 2010 | 12,644 | 23,956 | 32,052 | – | 68,652 |
| Acquisition of a subsidiary (note 35) | – | 832 | – | – | 832 |
| Deferred tax charged/(credited) to the income statement during the year (note 10) | (663) | (107) | 36,557 | 43,984 | 79,771 |
| Realised during the year | – | – | (30,511) | – | (30,511) |
| Deferred tax debited to equity during the year | – | 7,160 | – | – | 7,160 |
| Gross deferred tax liabilities at 31 December, 2010 | 11,981 | 31,841 | 38,098 | 43,984 | 125,904 |

Deferred tax assets

Group

2010

| | Provision for inventories HK\$'000 | Government grant HK\$'000 | Provision for other receivables HK\$'000 | Provision for trade receivables HK\$'000 | Accruals HK\$'000 | Total HK\$'000 |
|---|---------------------------------------|------------------------------|---|---|----------------------|-------------------|
| At 1 January, 2010 | 31 | 2,885 | 8 | 1,026 | 37,982 | 41,932 |
| Acquisition of a subsidiary (note 35) | – | – | – | 484 | 1,235 | 1,719 |
| Deferred tax (charged)/credited to the income statement during the year (note 10) | (31) | 2,642 | (8) | 564 | 23,756 | 26,923 |
| Gross deferred tax assets at 31 December, 2010 | – | 5,527 | – | 2,074 | 62,973 | 70,574 |

Notes to Financial Statements

31. DEFERRED TAX (continued)

Deferred tax assets (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2010 HK\$'000 |
|---|------------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 15,589 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (70,919) |
| | (55,330) |

Deferred tax liabilities

Group

2009

| | Development costs HK\$'000 | Revaluation of properties HK\$'000 | Withholding taxes HK\$'000 | Total HK\$'000 |
|--|----------------------------------|--|----------------------------------|-------------------|
| At 1 January, 2009 | 10,513 | 15,753 | 15,350 | 41,616 |
| Deferred tax charged/(credited) to the income statement during the year (note 10) | 2,131 | (299) | 21,906 | 23,738 |
| Realised during the year | – | – | (5,204) | (5,204) |
| Deferred tax debited to equity during the year | – | 8,502 | – | 8,502 |
| Gross deferred tax liabilities at 31 December, 2009 | 12,644 | 23,956 | 32,052 | 68,652 |

Notes to Financial Statements

31. DEFERRED TAX (continued)

Deferred tax assets

Group

2009

| | Provision for inventories HK\$'000 | Government grant HK\$'000 | Provision for other receivables HK\$'000 | Provision for trade receivables HK\$'000 | Accruals HK\$'000 | Total HK\$'000 |
|---|--|---------------------------------|---|---|----------------------|-------------------|
| At 1 January, 2009 | – | 1,117 | 17 | 1,210 | 14,732 | 17,076 |
| Deferred tax (charged)/credited to the income statement during the year (note 10) | 31 | 3,705 | (9) | (184) | 21,313 | 24,856 |
| Gross deferred tax assets at 31 December, 2009 | 31 | 4,822 | 8 | 1,026 | 36,045 | 41,932 |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2009 HK\$'000 |
|---|------------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 14,072 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (40,792) |
| | (26,720) |

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January, 2008 and applies to earnings after 31 December, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and a jointly-controlled entity established in Mainland China in respect of earnings generated from 1 January, 2008.

Notes to Financial Statements

32. SHARE CAPITAL

Shares

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Authorised: | | |
| 8,000,000,000 ordinary shares of HK\$0.025 each (a) (2009: 6,000,000,000 ordinary shares of HK\$0.025 each) | 200,000 | 150,000 |
| Issued and fully paid: | | |
| 4,956,645,473 ordinary shares of HK\$0.025 each (2009: 4,527,937,473 ordinary shares of HK\$0.025 each) | 123,916 | 113,198 |

During the year, the movements in share capital were as follows:

| | Number of shares in issue | Issued capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000 |
|--|------------------------------|-------------------------------|---|-------------------|
| At 1 January, 2010 | 4,527,937,473 | 113,198 | 225,247 | 338,445 |
| Issuance of shares in January 2010 (b) | 255,000,000 | 6,375 | 528,113 | 534,488 |
| Cancellation of shares (c) | (11,292,000) | (282) | (33,928) | (34,210) |
| Issuance of shares in June 2010 (d) | 185,000,000 | 4,625 | 598,652 | 603,277 |
| At 31 December, 2010 | 4,956,645,473 | 123,916 | 1,318,084 | 1,442,000 |

- (a) Pursuant to an ordinary resolution passed on 8 June, 2010, the authorised share capital of the Company was increased from HK\$150,000,000 (comprising 6,000,000,000 ordinary shares of HK\$0.025 each) to HK\$200,000,000 (comprising 8,000,000,000 ordinary shares of HK\$0.025 each) by creation of an additional 2,000,000,000 new ordinary shares of HK\$0.025 each in the Company.
- (b) In January 2010, the Company had issued 255,000,000 ordinary shares of HK\$0.025 each for a total cash consideration, before expenses, of HK\$535,500,000. Details are set out in the Company's press announcement dated 26 January, 2010.
- (c) On 1 April, 2010, 9 April, 2010 and 12 April, 2010, respectively, according to the board resolutions, the Company repurchased a total of 11,292,000 ordinary shares of HK\$0.025 each on the Stock Exchange at an aggregate consideration of HK\$34,087,000 (excluding expenses). The Company cancelled these Hong Kong shares immediately.
- (d) In June 2010, the Company had issued 185,000,000 ordinary shares of HK\$0.025 each for a total cash consideration, before expenses, of HK\$619,750,000. Details are set out in the Company's press announcement dated 17 June, 2010.

Notes to Financial Statements

33. SHARE OPTION SCHEMES

The Company operates a share option scheme (the “2003 scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

The 2003 Scheme became effective on 8 December, 2003 upon the listing of the Company’s shares on the Main Board, unless otherwise cancelled or amended, the 2003 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the 2003 Scheme, unless shareholders’ approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the 2003 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding option, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2003 Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2003 Scheme at any time during a period to be determined on the date of offer of grant of a share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the 2003 Scheme for the holding of a share option before it can be exercised.

The exercise price of the shares under the 2003 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

Notes to Financial Statements

33. SHARE OPTION SCHEMES (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2003 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued share of HK\$0.10 each into four shares of HK\$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2003 Scheme accordingly.

No share options were granted under the 2003 Scheme since 8 December, 2003.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 57 to 58 of the annual report.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September, 2000, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, the enterprise expansion fund and the staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to the staff welfare and bonus fund is based on Nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as an expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of Mainland China joint ventures.

Notes to Financial Statements

34. RESERVES (continued)

(b) Company

| | Notes | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Asset revaluation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|-------|---|------------------------------------|---|---------------------------------|-------------------|
| Balance at 1 January, 2009 | | 281,846 | 60,464 | – | 1,125,677 | 1,467,987 |
| Total comprehensive income for the year | | – | – | – | (78,929) | (78,929) |
| Issue of shares | | (56,599) | – | – | – | (56,599) |
| Interim 2009 dividend | 12 | – | – | – | (124,519) | (124,519) |
| Proposed final 2009 dividend | 12 | – | – | – | (95,659) | (95,659) |
| At 31 December, 2009 | | 225,247 | 60,464 | – | 826,570 | 1,112,281 |
| Balance at 1 January, 2010 | | 225,247 | 60,464 | – | 826,570 | 1,112,281 |
| Total comprehensive income for the year | | – | – | 83 | (22,320) | (22,237) |
| Issue of shares | 32 | 1,126,765 | – | – | – | 1,126,765 |
| Cancellation of shares | 32 | (33,928) | – | – | – | (33,928) |
| Interim 2010 dividend | 12 | – | – | – | (293,473) | (293,473) |
| Proposed final 2010 dividend | 12 | – | – | – | (99,133) | (99,133) |
| At 31 December, 2010 | | 1,318,084 | 60,464 | 83 | 411,644 | 1,790,275 |

Notes to Financial Statements

35. BUSINESS COMBINATION

On 22 October, 2010, the Group acquired a 55% interest in Shanghai Tongyong from third parties for a cash consideration of RMB61,916,000 (HK\$72,844,000). Shanghai Tongyong is engaged in the manufacture of general pharmaceutical products. The acquisition was made as part of the Group's strategy to expand its market share in Eastern China.

The Group has elected to measure the non-controlling interest in Shanghai Tongyong at the non-controlling interests' proportionate share of Shanghai Tongyong's identifiable net assets.

The fair values of the identifiable assets and liabilities of Shanghai Tongyong as at the date of acquisition were as follows:

| | Note | Fair value recognised on acquisition HK\$'000 |
|---|------|--|
| Property, plant and equipment | | 54,444 |
| Deferred tax assets | | 887 |
| Inventories | | 16,851 |
| Trade receivables | | 35,144 |
| Prepayments, deposits and other receivables | | 344 |
| Tax recoverable | | 273 |
| Cash and bank balances | | 29,522 |
| Trade payables | | (9,815) |
| Other payables and accruals | | (13,987) |
| Interest-bearing bank borrowings | | (16,277) |
| | | <u>97,386</u> |
| Attributable to: | | |
| The Group | | 53,562 |
| Non-controlling interests | | 43,824 |
| | | <u>97,386</u> |
| The Group's share of net assets | | 53,562 |
| Goodwill on acquisition | 16 | 19,282 |
| | | <u>72,844</u> |
| Satisfied by cash | | <u>72,844</u> |

Notes to Financial Statements

35. BUSINESS COMBINATION (continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK\$35,144,000 and HK\$343,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK\$38,373,000 and HK\$343,000, respectively, of which trading receivables of HK\$3,229,000 are expected to be uncollectible.

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | HK\$'000 |
|--|----------|
| Cash consideration | (72,844) |
| Cash and bank balances acquired | 29,522 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (43,322) |

Since its acquisition, Shanghai Tongyong contributed HK\$16,119,000 to the Group's turnover and HK\$289,000 to the consolidated profit for the year ended 31 December, 2010.

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and for land use rights are for terms ranging from one to fifty years.

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

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Within one year | 6,784 | 7,772 | 3,960 | 3,976 |
| In the second to fifth years, inclusive | 11,090 | 4,854 | 6,400 | – |
| After five years | 30,718 | 30,213 | – | – |
| | 48,592 | 42,839 | 10,360 | 3,976 |

Notes to Financial Statements

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|----------------|----------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Contracted, but not provided for: | | |
| – Plant and machinery | 167,208 | 230,432 |
| – Capital contributions in respect of a joint venture company (see below) | 722,400 | 722,400 |
| | 889,608 | 952,832 |
| | | |
| | Group | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Authorised, but not contracted for: | | |
| – Plant and machinery | 570 | 37,035 |

On 30 August, 2006, the Company, through its wholly-owned subsidiary, CTRC, entered into the joint venture agreement with Shaanxi Coal Chemical Industry Limited, Shaanxi Province Investment Group Limited and Shaanxi New Coal Chemical Science and Technology Development Co., Ltd. for the establishment of a joint venture company, namely, Shaanxi Xinxing Energy Chemical Industry Limited. Details of the formation of the joint venture company are set out in the Company's press announcement dated 1 September, 2006. The Group's share of the committed capital contribution in the joint venture company amounted to HK\$722,400,000 as at 31 December, 2010 (the formation of the joint venture company is still pending the formal approval of the relevant government authorities).

Notes to Financial Statements

38. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

| | Group | |
|---|----------|----------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Purchases of raw materials from: | | |
| – a Chinese joint venture partner of a subsidiary (note (i)) | 4,463 | 5,894 |
| Operating lease rentals payable to: | | |
| – a Chinese joint venture partner of a subsidiary (note (ii)) | 668 | 668 |
| – a company beneficially owned by two directors (note (ii)) | 3,443 | 3,404 |

Notes:

- (i) Purchases of raw materials were conducted with reference to the market prices.
- (ii) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to market prices.

(b) Other transactions with related parties

- (i) On 9 November, 2007, NJCTT entered into a master supply agreement to supply to LYG Tianqing cardio-cerebral medicines, anti-bacterial and anti-inflammatory medicines from 1 January, 2008 to 31 December, 2010 (the “NJCTT Master Supply Agreement”). The terms of the NJCTT Master Supply Agreement are to be determined by reference to the prevailing market prices of and demand for cardio-cerebral medicines, anti-bacterial and anti-inflammatory medicines in the PRC, and no less favourable to LYG Tianqing than those available to LYG Tianqing from independent third parties. The NJCTT Master Supply Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. Details of the agreement on the NJCTT Master Supply Agreement are set out in the Company’s press announcement dated 9 November, 2007. The sales of goods by NJCTT to LYG Tianqing of the year amounted to HK\$24,575,000 (2009: HK\$18,095,000) and have been eliminated on consolidation.

Notes to Financial Statements

38. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

- (ii) On 9 November, 2007, Jiangsu Fenghai entered into a master supply agreement to supply to LYG Tianqing anti-bacterial and anti-inflammatory medicines, cardio-cerebral medicines from 1 January, 2008 to 31 December, 2010 (the “Jiangsu Fenghai Master Supply Agreement”). The terms of the Jiangsu Fenghai Master Supply Agreement are to be determined by reference to the prevailing market prices of and demand for cardio-cerebral medicines, anti-bacterial and anti-inflammatory medicines in the PRC, no less favourable to LYG Tianqing than those available to LYG Tianqing from independent third parties. The Jiangsu Fenghai Master Supply Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. Details of the agreement on the Jiangsu Fenghai Master Supply Agreement are set out in the Company’s press announcement dated 31 November, 2007. The sales of goods by Jiangsu Fenghai to LYG Tianqing of the year amounted to HK\$4,461,000 (2009: HK\$5,311,000) and have been eliminated on consolidation.
- (iii) On 17 April, 2008, the Company entered into a Tenancy Agreement with Billion Source Holdings Limited (“Billion Source”) to lease from Billion Source the premises at 31st Floor, Building No. 1A, G.T. International Center, Jia 3 Yongandongli, Jianguomenwai Dajie, Chaoyang District, Beijing, PRC for a term of three years from 1 January, 2008 to 31 December, 2010. The terms of the tenancy are to be determined by reference to the prevailing market prices and no more favourable to the Company than those offered to independent third parties. Billion Source is a company beneficially owned by two directors. Billion Source is a connected party as defined in Chapter 14A of the Listing Rules. Details of the Tenancy Agreement are set out in the Company’s press announcement dated 17 April, 2008.

The rental fee paid to Billion Source for the year amounted to HK\$3,443,000 (2009: HK\$3,404,000), and has been disclosed in note 38(a) under “Service revenue from a company beneficially owned by a director”.

- (iv) On 24 September, 2008, CT Green Continent entered into a new agreement with Jiangsu Fenghai for CT Green Continent to provide technology development services for certain pharmaceutical products for a term of three years from 1 January, 2009 to 31 December, 2011 to Jiangsu Fenghai (the “New Jiangsu Fenghai Technology Services Agreement”). The terms of the technology development services are to be determined by reference to the prevailing market prices and no more favourable to Jiangsu Fenghai than those offered to independent third parties. Details of the New Jiangsu Fenghai Technology Services Agreement are set out in the Company’s press announcement dated 24 September, 2008.

There are no transactions arising from the Fenghai Technology Services Agreement in 2010 (2009: nil).

- (v) On 24 September 2008, JCTT and Jiangsu State Agribusiness Commercial Commodities Limited (“Jiangsu Agribusiness”) entered into a new master purchase agreement for JCTT’s purchase of coal from Jiangsu Agribusiness for a term of three years from 1 January, 2009 to 31 December, 2011 (the “2008 JAC Master Purchase Agreement”). The terms of the 2008 JAC Master Purchase Agreement are to be determined by reference to the prevailing market price of coal in Mainland China, the prevailing market demand and the quotations obtained from various potential suppliers, and no less favourable to JCTT than those available from independent suppliers. Details of the revision was set out in the Company’s press announcement dated 24 September, 2008.

The purchase of raw materials from Jiangsu Agribusiness for the year amounted to HK\$4,463,000 (2009: HK\$5,894,000), and has been disclosed in note 38(a) under “Purchases of raw materials from a Chinese joint venture partner of a subsidiary”.

Notes to Financial Statements

38. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

- (vi) On 30 November, 2010, Lucky Symbol entered into an agreement with Mr. Tse Ping to acquire Mr. Tse Ping's 100% equity interests in Ace Elite, which in turn holds 25% equity interests in Jiangsu Fenghai and 25% equity interests in Yancheng Suhai for a cash consideration of RMB201,704,000 (approximately HK\$231,657,000). Details are set out in the Company's press announcement dated 30 November, 2010.

The transaction was completed on 21 December, 2010.

- (vii) On 30 November, 2010, JCTT, as the supplier, has entered into a master raw materials supply agreement with Jiangsu Fenghai, as the purchaser, for the supply of raw materials for synthetic medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB2,500,000 (approximately HK\$2,900,000), RMB3,000,000 (approximately HK\$3,400,000) and RMB3,500,000 (approximately HK\$4,000,000), respectively.
- (viii) On 30 November, 2010, JCTT, as the supplier, has entered into a master raw materials supply agreement with NJCTT, as the purchaser, for the supply of raw materials for cardio-cerebral medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB40,000,000 (approximately HK\$45,900,000), RMB60,000,000 (approximately HK\$68,900,000) and RMB80,000,000 (approximately HK\$91,900,000), respectively.
- (ix) On 30 November, 2010, JCTT, as the supplier, has entered into a master raw materials supply agreement with Jiangsu Qingjiang, as the purchaser, for the supply of raw materials for synthetic medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB1,000,000 (approximately HK\$1,100,000), RMB3,000,000 (approximately HK\$3,400,000) and RMB5,000,000 (approximately HK\$5,700,000), respectively.
- (x) On 30 November, 2010, JCTT, as service provider, has entered into a master services agreement with Jiangsu Fenghai for the provision of research and development services for improvement and application of sugar-based supplement products for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB10,000,000 (approximately HK\$11,500,000) each year.

Notes to Financial Statements

38. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

- (xi) On 30 November, 2010, JCTT, as service provider, has entered into a master services agreement with NJCTT for the provision of research and development services for improvement and application of cardio-cerebral medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB15,000,000 (approximately HK\$17,200,000) each year.
- (xii) On 30 November, 2010, JCTT, as service provider, has entered into a master services agreement with Jiangsu Qingjiang for the provision of research and development services for improvement and application of orthopedic medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB2,000,000 (approximately HK\$2,300,000), RMB4,000,000 (approximately HK\$4,600,000) and RMB6,000,000 (approximately HK\$6,900,000), respectively.
- (xiii) On 30 November, 2010, LYG Tianqing, as the purchaser, has entered into a master pharmaceuticals purchase agreement with NJCTT, as the supplier, for the purchase of cardio-cerebral, anti-bacterial and anti-inflammatory medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB30,000,000 (approximately HK\$34,500,000), RMB37,000,000 (approximately HK\$42,500,000) and RMB45,000,000 (approximately HK\$51,700,000), respectively.
- (xiv) On 30 November, 2010, LYG Tianqing, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai, as the supplier, for the purchase of cardio-cerebral, anti-bacterial and anti-inflammatory medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB9,000,000 (approximately HK\$10,300,000), RMB10,300,000 (approximately HK\$11,500,000) and RMB11,000,000 (approximately HK\$12,600,000), respectively.
- (xv) On 30 November, 2010, LYG Tianqing, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Chia Tai Fenghai Medicines Co. Ltd. ("Jiangsu Fenghai Medicines"), as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry, respiratory system, gynecology and internal medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB6,000,000 (approximately HK\$6,900,000), RMB8,000,000 (approximately HK\$9,200,000) and RMB10,000,000 (approximately HK\$11,500,000), respectively.
- (xvi) On 30 November, 2010, Jiangsu Qingjiang Medicines, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai, as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry and respiratory system medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB4,000,000 (approximately HK\$4,600,000), RMB5,000,000 (approximately HK\$5,700,000) and RMB6,000,000 (approximately HK\$6,900,000), respectively.

Notes to Financial Statements

38. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

- (xvii) On 30 November, 2010, NJCTT, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai Medicines, as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry, respiratory system, gynecology and internal medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB4,000,000 (approximately HK\$4,600,000), RMB6,000,000 (approximately HK\$6,900,000) and RMB8,000,000 (approximately HK\$9,200,000), respectively.
- (xviii) On 30 November, 2010, Jiangsu Qingjiang, as the purchaser, has entered into a master pharmaceuticals purchase agreement with Jiangsu Fenghai Medicines, as the supplier, for the purchase of nutritious, anti-infective, digestive, psychiatry, respiratory system, gynecology and internal medicines for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB4,000,000 (approximately HK\$4,600,000), RMB5,000,000 (approximately HK\$5,700,000) and RMB6,000,000 (approximately HK\$6,900,000), respectively.
- (xix) On 30 November, 2010, JCTT, as the purchaser, has entered into a master purchase agreement with Jiangsu Agribusiness Commodities (a wholly-owned subsidiary of Jiangsu Agribusiness), as the supplier, for the purchase of coal for three years from 1 January, 2011 to 31 December, 2013 to replace the 2008 JAC Master Purchase Agreement, for an annual cap not exceeding RMB10,000,000 (approximately HK\$11,500,000), RMB11,000,000 (approximately HK\$12,600,000) and RMB12,000,000 (approximately HK\$13,800,000), respectively.
- (xx) On 30 November, 2010, the Company, as the supplier, has entered into a master supply agreement with Orient Success International Limited (“OSIL”) (a company which Mr. Jaran Chiaravanont, Mr. Montri Jiaravanont, Mr. Sumet Jiaravanon and Mr. Dhanin Chearavanont (the “Chearavanont Shareholders”), on an aggregate basis, are its controlling shareholders and Mr. Tse Ping is the nephew of the Chearavanont Shareholders, a connected person of the Company), as the purchaser, for the supply of antibiotics by the Company, its subsidiaries, jointly-controlled entities and associated companies to OSIL, its subsidiaries, jointly-controlled entities and associated companies for three years from 1 January, 2011 to 31 December, 2013 for an annual cap not exceeding RMB3,000,000 (approximately HK\$3,400,000), RMB5,000,000 (approximately HK\$5,700,000) and RMB7,000,000 (approximately HK\$8,000,000), respectively.
- (xxi) On 30 November, 2010, the Company, as the tenant and Billion Source, as the landlord, entered into a tenancy agreement regarding the leasing of the premises in Beijing for a term of three years from 1 January, 2011 to 31 December, 2013 for an annual rental not exceeding RMB3,800,000 (approximately HK\$4,400,000), RMB4,200,000 (approximately HK\$4,800,000) and RMB4,600,000 (approximately HK\$5,300,000), respectively.

Notes to Financial Statements

38. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

(xxii) On 30 November, 2010, the Company, as the tenant and Ms. Cheng Cheung Ling (a director of the Company), as the landlord, entered into a tenancy agreement regarding the leasing of 10 car park spaces in Beijing for a term of three years from 1 January, 2011 to 31 December, 2013 for an annual rental not exceeding RMB150,000 (approximately HK\$172,000), RMB180,000 (approximately HK\$207,000) and RMB216,000 (approximately HK\$248,000), respectively.

(xxiii) In 2010, investors (including Validated Profits Limited (“Validated Profits”), which is wholly owned by Mr. Tse Ping, Chia Tai Land Company Limited (“CT Land”) and other independent third parties) have entered into an agreement (“Consortium Agreement”) to form an investment consortium for the purpose of tendering a bid to the relevant governmental authorities in Beijing for the acquisition of a site located at Beijing Chaoyang District CBD and, subject to the bid being successful, forming a project company for the purpose of carrying out the development (“CBD project”). On 6 December, 2010, Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. (“CTP Investment”), a wholly owned subsidiary, entered into (a) an investment agreement with Validated Profits whereby Validated Profits agreed to transfer to CTP Investment all of its investment rights and obligations under the Consortium Agreement in connection with 7.5% of the total investment to be contributed by the Investment Consortium with nil consideration, and (b) an investment agreement with CT Land whereby CTP Investment agreed to transfer to CT Land all of its investment rights and obligations under the Consortium Agreement in connection with 2.5% of the total investment to be contributed by the Investment Consortium with nil consideration. Details are set out in the Company’s press announcement dated 6 December, 2010.

(c) Outstanding balances with related parties

(i) As disclosed in the consolidated statement of financial position, the Group had trade and other payables to its Chinese joint venture partners of HK\$2,845,000 (2009: HK\$2,747,000) and trade receivables from its Chinese joint venture partners of HK\$3,710,000 (2009: HK\$3,300,000). Trade and other payables and receivables are unsecured, interest-free and on normal trade terms for repayment.

During the year ended 31 December, 2010, the Group had paid the amount of HK\$103,532,000 to CT Land in relation to CBD project. As at 31 December, 2010, the amount due from CT Land was HK\$103,532,000 (2009: nil). The amount due from CT Land was unsecured and interest-free.

The carrying values of the amounts due from/to related companies approximate to their fair values.

Notes to Financial Statements

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

Group

| | Financial assets at fair value through profit or loss- held for trading HK\$'000 | Loans and receivables HK\$'000 | Available-for- sale financial assets HK\$'000 | Total HK\$'000 |
|---|--|--------------------------------------|--|-------------------|
| 2010: | | | | |
| Equity investments at fair value through profit or loss | 491,223 | – | – | 491,223 |
| Available-for-sale investments | – | – | 29,820 | 29,820 |
| Trade receivables | – | 625,908 | – | 625,908 |
| Financial assets included in prepayments, deposits and other receivables | – | 60,330 | – | 60,330 |
| Due from related companies | – | 107,242 | – | 107,242 |
| Cash and bank balances | – | 2,338,495 | – | 2,338,495 |
| | 491,223 | 3,131,975 | 29,820 | 3,653,018 |
| | Financial assets at fair value through profit or loss- held for trading HK\$'000 | Loans and receivables HK\$'000 | Available-for- sale financial assets HK\$'000 | Total HK\$'000 |
| 2009: | | | | |
| Equity investments at fair value through profit or loss | 53,898 | – | – | 53,898 |
| Available-for-sale investments | – | – | 29,820 | 29,820 |
| Trade receivables | – | 479,034 | – | 479,034 |
| Financial assets included in prepayments, deposits and other receivables | – | 34,926 | – | 34,926 |
| Due from related companies | – | 3,300 | – | 3,300 |
| Cash and bank balances | – | 1,827,313 | – | 1,827,313 |
| | 53,898 | 2,344,573 | 29,820 | 2,428,291 |

Notes to Financial Statements

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

Company

| | Financial assets at fair value through profit or loss- held for trading HK\$'000 | Loans and receivables HK\$'000 | Total HK\$'000 |
|---|--|--------------------------------------|-------------------|
| 2010: | | | |
| Equity investments at fair value through profit or loss | 110,823 | – | 110,823 |
| Financial assets included in prepayments, deposits and other receivables | – | 13,776 | 13,776 |
| Due from subsidiaries | – | 546,227 | 546,227 |
| Cash and bank balances | – | 852,283 | 852,283 |
| | 110,823 | 1,412,286 | 1,523,109 |
| | Financial assets at fair value through profit or loss- held for trading HK\$'000 | Loans and receivables HK\$'000 | Total HK\$'000 |
| 2009: | | | |
| Equity investments at fair value through profit or loss | 53,898 | – | 53,898 |
| Financial assets included in prepayments, deposits and other receivables | – | 1,176 | 1,176 |
| Due from subsidiaries | – | 135,449 | 135,449 |
| Cash and bank balances | – | 1,171,041 | 1,171,041 |
| | 53,898 | 1,307,666 | 1,361,564 |

Notes to Financial Statements

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

| | Financial liabilities at amortised cost | | | |
|---|---|----------------|----------------|----------------|
| | Group | | Company | |
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Trade payables | 159,515 | 123,092 | – | – |
| Financial liabilities included in other payables and accruals | 410,597 | 214,597 | 5,469 | 3,325 |
| Interest-bearing bank borrowings | 155,298 | 1,136 | – | – |
| Due to related companies | 2,845 | 2,747 | – | – |
| Due to subsidiaries | – | – | 200,315 | 124,019 |
| | 728,255 | 341,572 | 205,784 | 127,344 |

40. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

| | Carrying amounts | | Fair values | |
|--|------------------|------------------|------------------|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Equity investments at fair value through profit or loss | 491,223 | 53,898 | 491,223 | 53,898 |
| Available-for-sale investments | 29,820 | 29,820 | 29,820 | 29,820 |
| Trade receivables | 625,908 | 479,034 | 625,908 | 479,034 |
| Financial assets included in prepayments, deposits and other receivables | 60,330 | 34,926 | 60,330 | 34,926 |
| Due from related companies | 107,242 | 3,300 | 107,242 | 3,300 |
| Cash and bank balances | 2,338,495 | 1,827,313 | 2,338,495 | 1,827,313 |
| | 3,653,018 | 2,428,291 | 3,653,018 | 2,428,291 |
| Financial liabilities | | | | |
| Trade payables | 159,515 | 123,092 | 159,515 | 123,092 |
| Financial liabilities included in other payables and accruals | 410,597 | 214,597 | 410,597 | 214,597 |
| Interest-bearing bank borrowings | 155,298 | 1,136 | 155,298 | 1,136 |
| Due to related companies | 2,845 | 2,747 | 2,845 | 2,747 |
| | 728,255 | 341,572 | 728,255 | 341,572 |

Notes to Financial Statements

40. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

| | Carrying amounts | | Fair values | |
|--|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Financial assets | | | | |
| Equity investments at fair value through profit or loss | 110,823 | 53,898 | 110,823 | 53,898 |
| Financial assets included in prepayments, deposits and other receivables | 13,776 | 1,176 | 13,776 | 1,176 |
| Due from subsidiaries | 546,227 | 135,449 | 546,227 | 135,449 |
| Cash and bank balances | 852,283 | 1,171,041 | 852,283 | 1,171,041 |
| | 1,523,109 | 1,361,564 | 1,523,109 | 1,361,564 |
| Financial liabilities | | | | |
| Financial liabilities included in other payables and accruals | 5,469 | 3,325 | 5,469 | 3,325 |
| Due to subsidiaries | 200,315 | 124,019 | 200,315 | 124,019 |
| | 205,784 | 127,344 | 205,784 | 127,344 |

The fair values of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and bank balances, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amounts due to related companies and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank borrowings approximate to their carrying amounts as these borrowings are floating interest rate loans.

The fair values of listed equity investments are based on quoted market prices.

Notes to Financial Statements

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions including principally forward currency contracts.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's non-current bank and other borrowings with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

| | Increase/ (decrease) Basis point | Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity HK\$'000 |
|---------------------------------|--|--|--|
| 2010 | | | |
| Renminbi-denominated borrowings | 50 | (776) | (776) |
| Renminbi-denominated borrowings | (50) | 776 | 776 |
| 2009 | | | |
| Renminbi-denominated borrowings | 50 | (6) | (5) |
| Renminbi-denominated borrowings | (50) | 6 | 5 |

Notes to Financial Statements

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. In Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currency in respect of the current account items (including payment of dividend and profit to the foreign joint venture partner).

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of monetary assets and liabilities):

| | Increase/ (decrease) in exchange rate % | Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity HK\$'000 |
|--|--|--|--|
| 2010 | | | |
| If Hong Kong dollar weakens against Renminbi | 5 | – | 151,427 |
| If Hong Kong dollar strengthens against Renminbi | (5) | – | (151,427) |
| 2009 | | | |
| If Hong Kong dollar weakens against Renminbi | 5 | – | 85,329 |
| If Hong Kong dollar strengthens against Renminbi | (5) | – | (85,329) |

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investment at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Notes to Financial Statements

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's liquidity remains strong as at the end of the reporting period. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group is not exposed to liquidity risk.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

2010

| | On demand HK\$'000 | Less than 3 months HK\$'000 | 3 to 12 months HK\$'000 | 1 to 5 years HK\$'000 | Total HK\$'000 |
|----------------------------------|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-------------------|
| Interest-bearing bank borrowings | – | – | 28,236 | 127,062 | 155,298 |
| Trade payables | 20,946 | 138,569 | – | – | 159,515 |
| Other payables | 237,777 | 103,835 | 68,985 | – | 410,597 |
| Due to related companies | 2,845 | – | – | – | 2,845 |
| | 261,568 | 242,404 | 97,221 | 127,062 | 728,255 |

2009

| | On demand HK\$'000 | Less than 3 months HK\$'000 | 3 to 12 months HK\$'000 | 1 to 5 years HK\$'000 | Total HK\$'000 |
|----------------------------------|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-------------------|
| Interest-bearing bank borrowings | – | – | 1,136 | – | 1,136 |
| Trade payables | 92,531 | 20,957 | 9,604 | – | 123,092 |
| Other payables | 53,556 | 101,900 | 59,141 | – | 214,597 |
| Due to related companies | 2,747 | – | – | – | 2,747 |
| | 148,834 | 122,857 | 69,881 | – | 341,572 |

Company

| | 2010 | | 2009 | |
|---------------------|-----------------------|-------------------|-----------------------|-------------------|
| | On demand HK\$'000 | Total HK\$'000 | On demand HK\$'000 | Total HK\$'000 |
| Other payables | 5,479 | 5,479 | 3,325 | 3,325 |
| Due to subsidiaries | 200,315 | 200,315 | 124,019 | 124,019 |
| | 205,794 | 205,794 | 127,344 | 127,344 |

Notes to Financial Statements

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as held-for-trading investments (note 25) as at 31 December, 2010. The Group's listed investments are listed on the Hong Kong Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange, which are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 1% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

| | Carrying amount of equity investments HK\$'000 | Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity HK\$'000 |
|------------------------------|--|--|--|
| 2010 | | | |
| Investments listed in | | | |
| Hong Kong – Held-for-trading | 110,823 | 1,108/(1,108) | 1,108/(1,108) |
| Shanghai – Held-for-trading | 3,544 | 35/(35) | 35/(35) |
| Shenzhen – Held-for-trading | 376,856 | 3,769/(3,769) | 3,769/(3,769) |
| 2009 | | | |
| Investments listed in | | | |
| Hong Kong – Held for trading | 47,960 | 480/(480) | 480/(480) |
| NYSE – Held for trading | 761 | 9/(9) | 9/(9) |

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group funds its operations principally via its capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December, 2010 and 31 December, 2009.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March, 2011.