

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

**Directors' Report and
Financial Statements
For the year ended 31 December 2010**

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

REPORT OF THE DIRECTORS

The directors present their report to the members together with the audited consolidated financial statements of Reyoung Pharmaceutical Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2010.

PRINCIPAL ACTIVITY

The Company was incorporated in Bermuda on 26 October 2004 under the Companies Act 1981 of Bermuda as an exempted company with limited liability. The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are set out in note 17 to the financial statements.

DIRECTORS

The directors of the Company in office at the end of the year and at the date of this report are as follows:

EXECUTIVE DIRECTORS:

Mr Zhao Yushan (Chairman)
Mr He Maoqun

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr Ong Tiong Seng
Mr David Zheng Fangshun
Ms Tan Siok Chin

In accordance with the Company’s bye-laws, Mr He Maoqun, and Mr David Zheng Fangshun shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement which object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN SHARES OR DEBENTURES

According to the register of directors' shareholdings, none of the directors holding an office in the Company had any interest in the share capital or debentures of the Company as at 31 December 2010, except as follows:

	<u>Number of ordinary shares of US\$0.075 each of the Company</u>			
	<u>Direct</u>		<u>Indirect</u>	
	At 31.12.2010 ⁽¹⁾	At 31.12.2009	At 31.12.2010 ⁽¹⁾	At 31.12.2009
Mr Zhao Yushan	-	-	142,930,000 ⁽²⁾	143,130,000
Mr He Maoqun	-	-	142,930,000 ⁽²⁾	143,130,000

Notes:

1. The directors' interests as at 21 January 2011 were the same as those at 31 December 2010.
2. The 142,930,000 ordinary shares were held by Honco Union Inc. ("Honco Union"). Our directors, Mr Zhao Yushan and Mr He Maoqun were deemed to be interested in the 142,930,000 ordinary shares held by Honco Union by virtue of their shareholding interests of 48.2% and 32.6% respectively in Honco Union.

DIRECTORS' SERVICE CONTRACTS

The Company renewed its service agreements with Mr Zhao Yushan and Mr He Maoqun on 12 May 2008 for a period of three years unless otherwise terminated by either party giving not less than six months' notice to the other. Apart from the aforesaid, no director has entered into a service contract with the Company.

SHARE OPTIONS

There is presently no option scheme on unissued shares of the Company.

DIRECTORS' CONTRACTUAL INTERESTS

Except as disclosed in financial statements, during the financial year under review, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

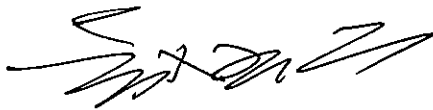
REPORT OF THE DIRECTORS

AUDITOR

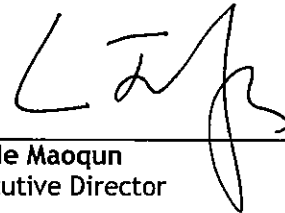
The financial statements of the previous year were audited by Grant Thornton (“GTHK”), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited (“BDO”) to practise in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 8 December 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

On behalf of the Board



Mr Zhao Yushan
Executive Chairman



Mr He Maoqun
Executive Director

18 March 2011

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

STATEMENT BY THE DIRECTORS

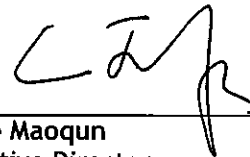
We, Mr Zhao Yushan and Mr He Maoqun, being two of the directors of Reyoung Pharmaceutical Holdings Limited, do hereby state that, in the opinion of the directors,

- (i) the accompanying statements of financial position, consolidated statement of comprehensive income, statements of changes in equity and consolidated statement of cash flows together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and
- (ii) as at the date of this statement, there are no reasonable grounds to believe that the Company will not be able to pay its debts as and when they fall due.

On behalf of the Board



Mr Zhao Yushan
Executive Chairman



Mr He Maoqun
Executive Director

18 March 2011



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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF REYOUNG PHARMACEUTICAL HOLDINGS LIMITED**

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Reyoung Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 66, which comprise the company and consolidated statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the company and consolidated statements 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 financial statements

The directors of the Company are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of these 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 financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 financial statements.

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



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial positions of the Company and of the Group as at 31 December 2010, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read 'BDO X-Teed'.

BDO Limited
Certified Public Accountants

18 March 2011

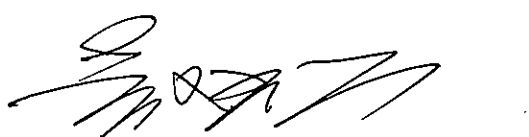
REYOUNG PHARMACEUTICAL HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Group 2010 RMB'000	2009 RMB'000
Revenue	5	1,167,948	973,754
Cost of sales		<u>(773,099)</u>	<u>(640,141)</u>
Gross profit		394,849	333,613
Other income	5	5,698	6,963
Selling and distribution costs		(215,179)	(177,308)
Administrative expenses		(90,461)	(71,015)
Other operating expenses		<u>(21,957)</u>	<u>(18,539)</u>
Profit from operations	9	72,950	73,714
Insurance compensation in respect of/(Loss on) fire accident	7	6,010	(16,631)
Finance costs	8	<u>(18,585)</u>	<u>(21,942)</u>
Profit before income tax		60,375	35,141
Income tax expense	10	<u>(14,418)</u>	<u>(11,788)</u>
Profit for the year		45,957	23,353
Other comprehensive income for the year			
Exchange loss on translation of financial statements of foreign operations		<u>(56)</u>	-
Total comprehensive income for the year		<u>45,901</u>	<u>23,353</u>
Profit for the year attributable to:			
Owners of the Company		45,998	23,353
Non-controlling interest		<u>(41)</u>	-
		<u>45,957</u>	<u>23,353</u>
Total comprehensive income attributable to:			
Owners of the Company		45,945	23,353
Non-controlling interest		<u>(44)</u>	-
		<u>45,901</u>	<u>23,353</u>
Earnings per share for profit attributable to the owners of the Company during the year	13		
- Basic		<u>RMB14.7 cents</u>	<u>RMB7.4 cents</u>
- Diluted		<u>N/A</u>	<u>N/A</u>

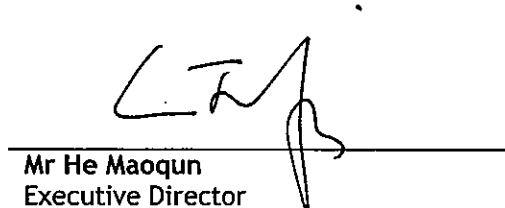
REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes	Group		Company	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	586,252	488,715	-	-
Land use rights	15	59,398	61,460	-	-
Intangible assets	16	4,712	5,726	-	-
Investments in subsidiaries	17	-	-	161,587	161,587
		<u>650,362</u>	<u>555,901</u>	<u>161,587</u>	<u>161,587</u>
Current assets					
Inventories	18	268,582	193,722	-	-
Trade and bills receivables	19	153,358	170,531	-	-
Due from subsidiaries	17	-	-	153,802	153,802
Prepayments, other receivables and deposits	20	6,876	11,896	296	290
Pledged bank deposits and time deposits	21	43,146	108,515	-	-
Cash and bank balances	22	253,925	176,697	2,195	2,226
		<u>725,887</u>	<u>661,361</u>	<u>156,293</u>	<u>156,318</u>
TOTAL ASSETS		<u>1,376,249</u>	<u>1,217,262</u>	<u>317,880</u>	<u>317,905</u>
EQUITY AND LIABILITIES					
Equity					
Issued capital	26	206,232	206,232	206,232	206,232
Treasury shares	27	(10,724)	(10,724)	(10,724)	(10,724)
Other reserves		345,792	299,847	50,244	38,135
Equity attributable to the owners of the Company		<u>541,300</u>	<u>495,355</u>	<u>245,752</u>	<u>233,643</u>
Non-controlling interest		<u>126</u>	<u>170</u>	<u>-</u>	<u>-</u>
Total equity		<u>541,426</u>	<u>495,525</u>	<u>245,752</u>	<u>233,643</u>
Current liabilities					
Trade and bills payables	23	272,994	242,317	-	-
Accrued liabilities, other payables and deposits received	24	82,939	67,587	5,519	3,350
Interest-bearing bank and other borrowings	25	285,600	304,500	-	-
Due to subsidiaries	17	-	-	66,609	80,912
Tax payables		5,390	5,333	-	-
		<u>646,923</u>	<u>619,737</u>	<u>72,128</u>	<u>84,262</u>
Non-current liabilities					
Interest-bearing bank and other borrowings	25	187,900	102,000	-	-
Total liabilities		<u>834,823</u>	<u>721,737</u>	<u>72,128</u>	<u>84,262</u>
TOTAL EQUITY AND LIABILITIES		<u>1,376,249</u>	<u>1,217,262</u>	<u>317,880</u>	<u>317,905</u>



Mr Zhao Yushan
Executive Chairman



Mr He Maoqun
Executive Director

18 March 2011

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

Group

	Attributable to owners of the Company							Non-controlling interest RMB'000	Total equity RMB'000	
	Issued capital RMB'000	Treasury shares RMB'000	Share premium* RMB'000 (note 28)	Merger reserve* RMB'000 (note 28)	Statutory reserve* RMB'000 (note 28)	Exchange fluctuation reserves* RMB'000	Retained profits* RMB'000			Total RMB'000
Balance as at 1 January 2009	206,232	-	48,576	(54,001)	64,466	-	217,453	482,726	-	482,726
Purchases of treasury shares	-	(10,724)	-	-	-	-	-	(10,724)	-	(10,724)
Capital contribution by the minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	170	170
Transactions with owners	-	(10,724)	-	-	-	-	-	(10,724)	170	(10,554)
Profit for the year and total comprehensive income for the year	-	-	-	-	-	-	23,353	23,353	-	23,353
Appropriations to statutory reserve	-	-	-	-	12,280	-	(12,280)	-	-	-
Balance as at 31 December 2009 and 1 January 2010	206,232	(10,724)	48,576	(54,001)	76,746	-	228,526	495,355	170	495,525
Profit for the year	-	-	-	-	-	-	45,998	45,998	(41)	45,957
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
- Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-	(53)	-	(53)	(3)	(56)
Total comprehensive income for the year	-	-	-	-	-	(53)	45,998	45,945	(44)	45,901
Appropriations to statutory reserve	-	-	-	-	16,838	-	(16,838)	-	-	-
Balance as at 31 December 2010	206,232	(10,724)	48,576	(54,001)	93,584	(53)	257,686	541,300	126	541,426

* These reserve accounts comprise the Group's other reserves of approximately RMB345,792,000 in the Group's statement of financial position as at 31 December 2010 (2009: approximately RMB299,847,000).

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

Company

	Issued capital RMB'000	Treasury shares RMB'000	Share premium** RMB'000 (note 28)	(Accumulated losses)/ Retained profits** RMB'000	Total RMB'000
Balance as at 1 January 2009	206,232	-	48,576	(5,530)	249,278
Purchases of treasury shares	-	(10,724)	-	-	(10,724)
Transactions with owners	-	(10,724)	-	-	(10,724)
Loss for the year and total comprehensive loss for the year	-	-	-	(4,911)	(4,911)
Balance as at 31 December 2009 and 1 January 2010	206,232	(10,724)	48,576	(10,441)	233,643
Profit for the year and total comprehensive income for the year	-	-	-	12,109	12,109
Balance as at 31 December 2010	<u>206,232</u>	<u>(10,724)</u>	<u>48,576</u>	<u>1,668</u>	<u>245,752</u>

** These reserve accounts comprise the Company's other reserves of approximately RMB50,244,000 in the Company's statement of financial position as at 31 December 2010 (2009: approximately RMB38,135,000).

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 RMB'000	2009 RMB'000
Cash flows from operating activities		
Profit before income tax	60,375	35,141
Adjustments for:		
Interest expense	18,585	21,942
Interest income	(3,163)	(4,915)
Gain on disposals of property, plant and equipment	-	(250)
Loss on fire accident - property, plant and equipment	-	5,920
- inventories	-	10,711
Depreciation of property, plant and equipment	57,145	50,036
Amortisation of land use rights	2,062	2,062
Amortisation of intangible assets	1,014	1,014
Impairment loss for property, plant and equipment	1,296	2,000
Write back of impairment loss for inventories	-	(4)
Impairment loss for trade receivables	6,556	7,434
Impairment loss for other receivables	1,989	-
Operating profit before working capital changes	<u>145,859</u>	<u>131,091</u>
Working capital adjustments:		
Increase in inventories	(74,860)	(46,746)
Decrease/(Increase) in trade and bills receivables	10,617	(39,912)
Decrease in prepayments, other receivables and deposits	3,031	6,319
Increase in trade and bills payables	30,677	84,121
Increase in accrued liabilities, other payables and deposits received	<u>15,352</u>	<u>25,577</u>
Cash generated from operations	130,676	160,450
Interest paid	(25,938)	(24,503)
Interest received	3,163	4,915
Income tax paid	<u>(14,361)</u>	<u>(8,401)</u>
<i>Net cash generated from operating activities</i>	<u>93,540</u>	<u>132,461</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(148,691)	(92,389)
Proceeds from disposals of property, plant and equipment	-	250
Decrease/(Increase) in pledged bank deposits/time deposits with original maturity of more than three months when acquired	65,369	(76,515)
Capital contribution by the minority shareholder of a subsidiary	-	170
<i>Net cash used in investing activities</i>	<u>(83,322)</u>	<u>(168,484)</u>
Cash flows from financing activities		
Purchase of treasury shares	-	(10,724)
New bank loans	482,500	347,500
New other loans	-	55,000
Repayments of bank loans	(385,500)	(269,650)
Repayments of other loans	<u>(30,000)</u>	<u>-</u>
<i>Net cash generated from financing activities</i>	<u>67,000</u>	<u>122,126</u>
Net increase in cash and cash equivalents	<u>77,218</u>	<u>86,103</u>
Cash and cash equivalents at beginning of the year	176,697	90,594
Effect of foreign exchange rate changes	<u>10</u>	<u>-</u>
Cash and cash equivalents at end of the year	<u>253,925</u>	<u>176,697</u>

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. CORPORATE INFORMATION

Reyoung Pharmaceutical Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 26 October 2004. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda. Its principal place of business is located at No. 6 Erlangshan Road, Yi Yuan County, Shandong, the People's Republic of China (the "PRC") 256100. The Company's shares have been listed on the Mainboard of the Singapore Exchange Securities Trading Limited (the "SGX-ST") since 8 September 2005.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries (together with the Company referred to as the "Group") are set out in note 17 to the financial statements.

The Group's operations are principally conducted in the PRC. Accordingly, the financial statements have been presented in Renminbi ("RMB"), being the functional currency of the Company and its subsidiaries in the PRC, rounded in thousands unless otherwise stated.

The financial statements on pages 7 to 66 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the International Accounting Standards Board (the "IASB"), and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The financial statements also include the applicable disclosure requirements of the Listing Manual of the SGX-ST (the "Listing Manual").

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised IFRSs - effective 1 January 2010

IFRSs (Amendments)	Improvements to IFRSs
Amendments to IAS 39	Eligible Hedged Items
Amendments to IFRS 2	Share-based Payment - Group Cash-settled Share-based Payment Transactions
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 3 (Revised)	Business Combinations
IFRIC 17	Distributions of Non-cash Assets to Owners

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(a) Adoption of new/revised IFRSs - effective 1 January 2010 (Continued)

IFRS 3 (Revised) - Business Combinations and IAS 27(Revised) - Consolidated and Separate Financial Statements

The revised accounting policies are described in note 3 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in IFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised IFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised IAS 27 has had no impact on the current year.

Classification by borrower of a term loan that contains a repayment on demand clause

The International Financial Reporting Standard Interpretation Committee (the "IFRIC") at its meeting in November 2010 confirmed its conclusion that a liability, which may be callable by the lender at any time without cause (an overriding right of demand), must be classified as a current liability in accordance with paragraph 69(d) of IAS 1 irrespective of the probability that the lender will invoke the clause without cause. In light of the above conclusion of IFRIC meeting, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future. The directors of the Company decided that it is more appropriate to account for and present term loans with this new accounting policy. The Group has applied this new accounting policy retrospectively. However, the adoption of this new accounting policy has not affected the consolidated or parent company statement of financial position at 1 January 2009 and accordingly the third statement of financial position as at 1 January 2009 is not presented.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(b) New/revised IFRSs that have been issued but are not yet effective

The following new/revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

IFRSs (Amendments)	Improvements to IFRSs 2010 ^{2&3}
Amendments to IAS 32	Classification of Rights Issues ¹
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement ³
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ²
IAS 24 (Revised)	Related Party Disclosures ³
Amendments to IFRS 7	Disclosure - Transfers of Financial Assets ⁴
Amendments to IAS 12	Deferred Tax - Recovery of Underlying Assets ⁵
IFRS 9	Financial Instruments ⁶

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

IAS 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 amendments to IFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under IFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. IFRS 9 carries forward the recognition and measurement requirements for financial liabilities from IAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

**(b) New/revised IFRSs that have been issued but are not yet effective
(Continued)**

The amendments to IAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised IFRSs and the directors so far concluded that the application of these new/revised IFRSs will have no material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The significant accounting policies that have been adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 2.

The financial statements have been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparing the financial statements. Although these estimates are based on the directors' best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Business combination from 1 January 2010 (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of non-controlling shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised in profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Recognition of revenue

Revenue is recognised to the extent when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable for the goods sold, net of allowances for returns, trade discounts and value-added tax. The following specific recognition criteria must also be met before revenue is recognised:

- (i) Sales of goods - revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers have accepted the goods.
- (ii) Interest income - interest income is recognised as interest accrues (using the effective interest method).
- (iii) Dividend income - dividend income is recognised when the Group's right to receive payment has been established.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

Property, plant and equipment, other than freehold land and construction in progress ("CIP"), are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Leasehold buildings	The shorter of the lease terms and 48 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The assets' estimated residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Freehold land is accounted for as property, plant and equipment and stated at cost less impairment. No amortisation is provided on freehold land.

CIP represents buildings under construction and plant and machinery pending installation and is stated at cost less any impairment losses. Cost comprises the direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP. CIP is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the CIP is completed and ready for use.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Land use rights

Land use rights represent up-front payments made to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any impairment losses. Amortisation is charged to profit or loss on the straight-line method over the period of the leases which ranges from 10 to 50 years.

(f) Intangible assets

Intangible assets consist of mainly trademark and patents and are stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line method over their estimated useful life of 10 years.

Intangible assets with finite lives are amortised over the expected economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected economic useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

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

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of non-financial assets

Land use rights, property, plant and equipment, intangible assets and investments in subsidiaries are subject to impairment testing and are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use. In assessing value-in-use, the estimate future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("CGU")). As a result, some assets are tested individually and some are tested at CGU level for impairment. 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. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses recognised for CGUs are charged pro-rata to the assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial assets

The Group's financial assets mainly include trade and bills receivables, other receivables and deposits, pledged bank deposits and time deposits, and cash and bank balances.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

These financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are classified as loans and receivables under IAS 39. All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. These financial assets are measured at initial recognition at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. Gain or loss is recognised in profit or loss when these financial assets are derecognised.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

These are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial assets (Continued)

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter into bankruptcy or other financial reorganisation; and
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group. If any such evidence exists, the impairment loss is measured and recognised.

If any such evidence exists, the impairment loss is measured and recognised as follows:

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss for the period in which the impairment occurs.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial assets (Continued)

Impairment of financial assets (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit or loss.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolescence or slow moving items. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial liabilities

The Group's financial liabilities mainly include trade and bills payables, other payables, accrued liabilities and interest-bearing bank and other borrowings which are recognised when, and only when the Group becomes a party to the contractual provisions of the financial instruments. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs. Financial liabilities are initially measured at fair value of consideration received less any directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. Gain or loss is recognised in profit or loss when the financial liabilities are derecognised. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expensed.

Borrowings

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

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

Trade and bills payables, other payables and accrued liabilities

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Income taxes

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Corporate income tax is provided at rates applicable to the companies within the Group on income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred tax is the tax expected to be payable or recoverable on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction other than a business combination that affects neither the taxable profit nor the accounting profit.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Income taxes (Continued)

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in profit or loss, or in other comprehensive income or directly in equity if it relates to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and cash equivalents

For the purpose of the statement of cash flows presentation, cash and cash equivalents consist of cash on hand and in banks, demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable in demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position classification, cash and bank balances comprise cash on hand and demand deposits repayable on demand with any banks or other financial institutions.

(m) Issued capital

Ordinary shares are classified as equity. Issued capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefit) to the extent that they are incremental costs directly attributable to the equity transaction.

(n) Treasury shares

When shares are reacquired by the Company, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. When treasury shares are subsequently sold or reissued, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs, is recognised in the capital reserve.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits

Retirement benefit scheme

Pursuant to the relevant regulations of the PRC government, the subsidiaries of the Group operating in the PRC participate in a local municipal government retirement benefit scheme (the "Scheme"), whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

(p) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines, which are pharmaceutical products - wholesalers and personal hygiene products - wholesalers.

Each of these operating segments is managed separately as each of these product lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Segment reporting (Continued)

The measurement policies of the Group uses for segment reporting under IFRS 8 are the same as those used in its IFRS financial statements, except that certain items are not included in arriving at the operating results of the operating segment (expenses relating to central administration and directors' remuneration, finance costs and income tax expense and also income relating to interest and other corporative income).

Segment assets include all assets except that corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

No asymmetrical allocations have been applied to reportable segments.

(q) Operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line method over the lease term in profit or loss except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Foreign currencies

In the individual financial statements of the consolidated entities, foreign currency transactions are measured in the respective functional currencies of the Company and the subsidiaries and are recorded on initial recognition in the functional currencies at the applicable exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the applicable exchange rates ruling at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Exchange differences are dealt with in profit or loss.

In the consolidated financial statements, all individual financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rate at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

(s) Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties (Continued)

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(t) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. These are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

(v) Research and development costs

Cost associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion;
and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of development of internally generated product developments that meet the above recognitions are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Research and development costs (Continued)

All other development costs are expensed as incurred.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. The accounting estimates made may not equal to the actual results. They are continually evaluated and are based on experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price less all further costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of selling products of similar nature. They could be changed significantly as a result of competitors' actions in response to changes in market condition. The management will reassess the estimations at the next reporting date.

(ii) Impairment of trade and bills receivables

The Group's management assesses the collectibility of trade and bills receivables on a regular basis. This estimate is based on the credit-worthiness and repayment history of its customers and the current market condition. When the Group's management determines that there are indicators of significant financial difficulties of the trade debtors such as default or delinquency in payments, impairment is estimated. The management will reassess the impairment loss at the next reporting date.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iii) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises the intangible assets in accordance with the accounting policies stated in note 3(d) and 3(f) respectively. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from use of these assets.

(iv) Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

(v) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for assets at each reporting date. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

5. REVENUE AND OTHER INCOME

Revenue of the Group represents the net invoiced value of goods sold, net of allowances for returns, trade discounts and value-added tax.

An analysis of the Group's revenue and other income is as follows:

	2010 RMB'000	2009 RMB'000
<u>Revenue</u>		
Sales of goods	<u>1,167,948</u>	<u>973,754</u>
<u>Other income</u>		
Bank interest income	3,163	4,915
Sales of scrap materials	2,510	1,541
Write back of impairment loss for inventories	-	4
Others	<u>25</u>	<u>503</u>
	<u>5,698</u>	<u>6,963</u>

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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6. SEGMENT INFORMATION

The executive directors have identified the Group's two product lines as operating segments as further described in note 3(p).

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	Pharmaceutical products RMB'000	2010 Personal hygiene products RMB'000	Total RMB'000
Reportable segment revenue	<u>1,098,001</u>	<u>69,947</u>	<u>1,167,948</u>
Reportable segment profit/(loss)	<u>107,663</u>	<u>(28,509)</u>	<u>79,154</u>
Bank interest income	3,138	25	3,163
Depreciation and amortisation of non- financial assets	(52,385)	(7,836)	(60,221)
Impairment of property, plant and equipment	-	(1,296)	(1,296)
Write back/(Impairment) of trade and other receivables	1,486	(10,031)	(8,545)
Reportable segment assets	1,255,264	118,350	1,373,614
Additions to non-current segment assets during the year	155,276	768	156,044
Reportable segment liabilities	806,984	22,408	829,392

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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6. SEGMENT INFORMATION (Continued)

	Pharmaceutical products RMB'000	2009 Personal hygiene products RMB'000	Total RMB'000
Reportable segment revenue	906,192	67,562	973,754
Reportable segment profit/(loss)	93,863	(38,261)	55,602
Bank interest income	4,454	461	4,915
Depreciation and amortisation of non- financial assets	(44,513)	(8,599)	(53,112)
Impairment of property, plant and equipment	-	(2,000)	(2,000)
Impairment of trade and other receivables	(1,064)	(6,370)	(7,434)
Loss on fire accident - property, plant and equipment	-	(5,920)	(5,920)
Loss on fire accident - inventories	-	(10,711)	(10,711)
Gain on disposals of property, plant and equipment	-	250	250
Reportable segment assets	1,053,916	160,687	1,214,603
Additions to non-current segment assets during the year	92,362	2,588	94,950
Reportable segment liabilities	686,315	32,160	718,475

All of the segment revenue reported above is from external customers.

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2010 RMB'000	2009 RMB'000
Reportable segment revenues		
Pharmaceutical products		
- wholesales	1,098,001	906,192
Personal hygiene products		
- wholesales	69,947	67,562
Group revenues	1,167,948	973,754

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

6. SEGMENT INFORMATION (Continued)

	2010 RMB'000	2009 RMB'000
Reportable segment profit/(loss)		
Pharmaceutical products		
- wholesales	107,663	93,863
Personal hygiene products		
- wholesales	<u>(28,509)</u>	<u>(38,261)</u>
	79,154	55,602
Interest and other corporate income	5,698	6,963
Central administration and directors' remuneration	(5,892)	(5,482)
Finance costs	<u>(18,585)</u>	<u>(21,942)</u>
Profit before income tax	<u>60,375</u>	<u>35,141</u>
	2010	2009
	RMB'000	RMB'000
Reportable segment assets		
Pharmaceutical products		
- wholesales	1,255,264	1,053,916
Personal hygiene products		
- wholesales	<u>118,350</u>	<u>160,687</u>
	1,373,614	1,214,603
Other corporate assets	<u>2,635</u>	<u>2,659</u>
Group assets	<u>1,376,249</u>	<u>1,217,262</u>
	2010	2009
	RMB'000	RMB'000
Reportable segment liabilities		
Pharmaceutical products		
- wholesales	806,984	686,315
Personal hygiene products		
- wholesales	<u>22,408</u>	<u>32,160</u>
	829,392	718,475
Other corporate liabilities	<u>5,431</u>	<u>3,262</u>
Group liabilities	<u>834,823</u>	<u>721,737</u>

No geographical segment information is presented as most of the Group's revenue, expenses, results, assets and liabilities are located in the PRC, which is considered as one geographical location.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

7. INSURANCE COMPENSATION IN RESPECT OF/(LOSS ON) FIRE ACCIDENT

In December 2009, there was a fire accident broke out in one of the Company's subsidiaries. Certain warehouses and inventories with carrying amounts of RMB5,920,000 and RMB10,711,000 respectively were badly damaged and the above amounts were written off in full. At the reporting date of the financial statements for the year ended 31 December 2009, the estimated amount recoverable from insurance claim remained uncertain and accordingly, no insurance compensation was recognised for the year ended 31 December 2009. During the year ended 31 December 2010, the Group received an insurance compensation of RMB6,010,000.

8. FINANCE COSTS

	Group	
	2010	2009
	RMB'000	RMB'000
<u>Interest charges on:</u>		
Other loans	2,534	620
Bank loans		
- wholly repayable within five years	<u>23,404</u>	<u>23,883</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	25,938	24,503
Less: interest capitalised as qualifying assets	<u>(7,353)</u>	<u>(2,561)</u>
	<u>18,585</u>	<u>21,942</u>

The borrowing costs have been capitalised at a rate of 5.34% per annum (2009: 4.97% per annum) for the year ended 31 December 2010.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

9. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting):

	Group	
	2010	2009
	RMB'000	RMB'000
Cost of inventories recognised as an expense	643,219	530,083
Amortisation of land use rights*	2,062	2,062
Amortisation of intangible assets**	1,014	1,014
Depreciation of property, plant and equipment***	57,145	50,036
Operating lease charges for leasehold buildings	390	194
Non-audit fee	170	91
Gain on disposals of property, plant and equipment	-	(250)
Staff costs (including directors' emoluments (note 11))		
- Salaries and wages	83,960	63,644
- Retirement scheme contribution	18,151	13,451
- Less: amount included in research and development costs	(1,230)	(545)
	<u>100,881</u>	<u>76,550</u>
Impairment loss for trade receivables****	6,556	7,434
Impairment loss for other receivables****	1,989	-
Write back of impairment loss of inventories	-	(4)
Impairment loss for property, plant and equipment****	1,296	2,000
Research and development costs*****	<u>11,586</u>	<u>8,696</u>

* Amortisation of land use rights of approximately RMB1,645,000 (2009: approximately RMB1,645,000) and approximately RMB417,000 (2009: approximately RMB417,000) were charged to cost of sales and administrative expenses, respectively for the year ended 31 December 2010.

** Amortisation of intangible assets of approximately RMB1,014,000 (2009: approximately RMB1,014,000) was charged to administrative expenses for the year ended 31 December 2010.

*** Depreciation charge of approximately RMB45,788,000 (2009: approximately RMB41,192,000) and approximately RMB11,357,000 (2009: approximately RMB8,844,000) were charged to cost of sales and administrative expenses, respectively for the year ended 31 December 2010.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

9. PROFIT FROM OPERATIONS (Continued)

**** Impairment losses for trade receivables, other receivables and property, plant and equipment (2009: impairment losses for trade receivables and property, plant and equipment) were charged to other operating expenses for the year ended 31 December 2010.

*****Research and development costs of approximately RMB11,586,000 (2009: approximately RMB8,696,000) was charged to other operating expenses for the year ended 31 December 2010.

10. INCOME TAX EXPENSE

	Group	
	2010	2009
	RMB'000	RMB'000
Current year provision:		
PRC income tax	<u>14,418</u>	<u>11,788</u>

PRC income tax is provided at the rates applicable to the subsidiaries in the PRC on their income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on the existing PRC income tax regulations, practices and interpretations thereof.

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate for domestic and foreign enterprises is unified at 25%. Under this law, foreign enterprises are entitled to tax holidays under the old regime, if the foreign enterprises obtained their business licenses on or before 16 March 2007.

The Group's subsidiary, namely Reyoung Pharmaceutical Co., Limited ("Reyoung") is a wholly foreign-owned enterprise in the PRC. On 5 December 2008, Reyoung was approved as an advanced and new technology enterprise, and therefore, Reyoung is subject to a preferential income tax rate of 15% for the three years commencing from the year ended 31 December 2009.

The Group's subsidiary, namely Shandong Yimoo Women Necessities Co., Limited ("Shandong Yimoo") is a wholly foreign-owned enterprise in the PRC. Shandong Yimoo is subject to income tax at the rate of 25% under the prevailing income tax law of the PRC. No corporate income tax has been provided for Shandong Yimoo as it did not derive any assessable profits during the years ended 31 December 2009 and 2010.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

10. INCOME TAX EXPENSE (Continued)

The Group's subsidiary, namely Shanghai Yimoo Women Necessities Co., Limited ("Shanghai Yimoo") is a sino-foreign cooperative enterprise in the PRC. In accordance with the various approval documents issued by the State Tax Bureau and Local Tax Bureau of the PRC, as a sino-foreign cooperative enterprise in the PRC, Shanghai Yimoo is entitled to exemption from the PRC state and local corporate income taxes for the first two profitable years and thereafter are entitled to a 50% relief from the state corporate income tax and full exemption from local corporate income tax of the PRC for the following three years (the "Tax Holiday"). The Tax Holiday of Shanghai Yimoo was expired during the year ended 31 December 2009. From 1 January 2010 onwards, Shanghai Yimoo is subject to income tax at the rate of 25% under the prevailing income tax law of the PRC. No corporate income tax has been provided for Shanghai Yimoo as it did not derive any assessable profits during the years ended 31 December 2009 and 2010.

No profits tax has been provided by the Company as the Company did not derive any assessable profits during the year (2009: Nil).

The Group has not recognised deferred tax assets of approximately RMB10,630,000 (2009: approximately RMB5,219,000) arising mainly from the estimated tax losses of approximately RMB42,518,000 (2009: approximately RMB20,876,000) of Shandong Yimoo and Shanghai Yimoo as at 31 December 2010. Deferred tax assets have not been recognised as it is uncertain whether future taxable profit of Shandong Yimoo and Shanghai Yimoo will be available for utilising the tax losses. The unrecognised tax losses will expire in various dates up to 2015.

As at 31 December 2010, deferred tax liabilities amounted to approximately RMB19,210,000 (2009: approximately RMB10,791,000) in respect of the aggregate amount of temporary differences associated with the undistributed earnings of Reyoung have not been recognised. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

10. INCOME TAX EXPENSE (Continued)

A reconciliation of the expected income tax expense and accounting profit at applicable tax rates is presented below:

	Group	
	2010	2009
	RMB'000	RMB'000
Profit before income tax	<u>60,375</u>	<u>35,141</u>
Tax on profit before income tax, calculated at the applicable rate to profits in the tax jurisdiction concerned	15,094	8,785
Non-taxable income	(1,716)	(455)
Non-deductible expenses	5,217	8,706
Rate differential on a subsidiary in the PRC	(9,612)	(7,943)
Tax losses not recognised	5,411	3,025
Others	<u>24</u>	<u>(330)</u>
	<u>14,418</u>	<u>11,788</u>

11. DIRECTORS' REMUNERATION

Remuneration of the directors of the Company is disclosed as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Fee	766	763
Other emoluments	<u>2,180</u>	<u>1,395</u>
	<u>2,946</u>	<u>2,158</u>

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

11. DIRECTORS' REMUNERATION (Continued)

The remuneration of the directors of the Company analysed into the following bands is disclosed in compliance with paragraph 1207.11 of Chapter 12 of the Listing Manual of the SGX-ST:

For the year ended 31 December 2010

	Executive directors	Independent non-executive directors	Total
Below S\$250,000 (equivalent to RMB1,275,000)	1	3	4
S\$250,000 to below S\$500,000 (equivalent to RMB1,275,000 to below RMB2,550,000)	1	-	1
	2	3	5

For the year ended 31 December 2009

	Executive directors	Independent non-executive directors	Total
Below S\$250,000 (equivalent to RMB1,225,000)	2	5	7
S\$250,000 to below S\$500,000 (equivalent to RMB1,225,000 to below RMB2,450,000)	-	-	-
	2	5	7

12. DIVIDENDS

The board of directors did not recommend any payment of dividends for the years ended 31 December 2009 and 2010. No interim dividend was declared for the years ended 31 December 2009 and 2010.

13. EARNINGS PER SHARE - Group

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company of approximately RMB45,998,000 (2009: approximately RMB23,353,000) and on the weighted average of 313,420,000 (2009: 316,948,000) ordinary shares in issue (excluding treasury shares) during the year.

Diluted earnings per share for the years ended 31 December 2009 and 2010 was not presented as there is no dilutive potential ordinary share in existence during both years.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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14. PROPERTY, PLANT AND EQUIPMENT - Group

	Freehold land RMB'000	Leasehold buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2009							
Gross carrying amount	-	242,509	269,938	36,248	11,457	94,852	655,004
Accumulated depreciation	-	(55,530)	(119,704)	(20,953)	(7,096)	-	(203,283)
Net carrying amount	-	186,979	150,234	15,295	4,361	94,852	451,721
For the year ended 31 December 2009							
Opening net carrying amount	-	186,979	150,234	15,295	4,361	94,852	451,721
Additions	-	-	12,993	3,421	2,070	76,466	94,950
Disposals	-	-	-	-	-	-	-
Transfer from CIP	-	38,103	74,885	-	-	(112,988)	-
Depreciation	-	(14,021)	(30,944)	(3,483)	(1,588)	-	(50,036)
Impairment loss	-	(5,912)	(2,000)	(8)	-	-	(7,920)
Closing net carrying amount	-	205,149	205,168	15,225	4,843	58,330	488,715
At 31 December 2009							
Gross carrying amount	-	280,612	357,816	39,669	13,191	58,330	749,618
Accumulated depreciation and impairment loss	-	(75,463)	(152,648)	(24,444)	(8,348)	-	(260,903)
Net carrying amount	-	205,149	205,168	15,225	4,843	58,330	488,715
For the year ended 31 December 2010							
Opening net carrying amount	-	205,149	205,168	15,225	4,843	58,330	488,715
Additions	468	1,785	8,074	7,646	4,189	133,882	156,044
Transfer from CIP	-	15,221	5,892	-	-	(21,113)	-
Depreciation	-	(15,331)	(35,993)	(3,991)	(1,830)	-	(57,145)
Impairment loss	-	-	(1,296)	-	-	-	(1,296)
Exchange alignments	(11)	(42)	-	-	(13)	-	(66)
Closing net carrying amount	457	206,782	181,845	18,880	7,189	171,099	586,252
At 31 December 2010							
Gross carrying amount	457	297,575	371,782	47,315	17,366	171,099	905,594
Accumulated depreciation and impairment loss	-	(90,793)	(189,937)	(28,435)	(10,177)	-	(319,342)
Net carrying amount	457	206,782	181,845	18,880	7,189	171,099	586,252

The Group's leasehold buildings of RMB205,073,000 (2009: RMB205,149,000) and RMB1,709,000 (2009: Nil) are situated in the PRC and United States respectively and are all held under short-term to medium-term leases.

As at 31 December 2010, certain of the Group's leasehold buildings with a net carrying amount of approximately RMB113,747,000 (2009: approximately RMB171,036,000), plant and machinery with a net carrying amount of approximately RMB59,486,000 (2009: approximately RMB95,980,000) and furniture, fixtures and office equipment with a net carrying amount of approximately RMB18,779,000 (2009: RMB426,000) have been pledged to the banks to secure the Group's bank loans (2009: bills payables and bank loans) (note 25).

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

14. PROPERTY, PLANT AND EQUIPMENT - Group (Continued)

During the year, the Group carried out a review of the recoverable amount of the plant and machinery of Shandong Yimoo, having regard to Shandong Yimoo suffering from a net loss. The review led to the recognition of an impairment loss of approximately RMB636,000 (2009: Nil).

During the year, the Group carried out a review of the recoverable amount of the plant and machinery of Shanghai Yimoo, having regard to a number of assets being idle. The review led to the recognition of an impairment loss of approximately RMB660,000 (2009: approximately RMB2,000,000).

The recoverable amounts of the relevant assets of Shandong Yimoo and Shanghai Yimoo have been determined on the basis of the value-in-use calculation. The discount rate used in measuring value-in-use was 5.4% per annum. The impairment losses have been included in the other operating expenses.

15. LAND USE RIGHTS - Group

The Group's interests in land use rights represent up-front payments to acquire long term interests in the usage of land in the PRC.

	2010 RMB'000	2009 RMB'000
At 1 January		
Gross carrying amount	69,426	69,426
Accumulated amortisation	(7,966)	(5,904)
Net carrying amount	<u>61,460</u>	<u>63,522</u>
For the year ended 31 December		
Opening net carrying amount	61,460	63,522
Amortisation	(2,062)	(2,062)
Closing net carrying amount	<u>59,398</u>	<u>61,460</u>
At 31 December		
Gross carrying amount	69,426	69,426
Accumulated amortisation	(10,028)	(7,966)
Net carrying amount	<u>59,398</u>	<u>61,460</u>

As at 31 December 2010, certain of the Group's land use rights with a net carrying amount of approximately RMB47,956,000 (2009: approximately RMB51,127,000) have been pledged to the banks to secure the bank loans granted to the Group (note 25).

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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16. INTANGIBLE ASSETS - Group

	Trademark RMB'000	Patents RMB'000	Total RMB'000
At 1 January 2009			
Gross carrying amount	197	9,815	10,012
Accumulated amortisation	(118)	(3,154)	(3,272)
Net carrying amount	<u>79</u>	<u>6,661</u>	<u>6,740</u>
For the year ended 31 December 2009			
Opening net carrying amount	79	6,661	6,740
Amortisation	(29)	(985)	(1,014)
Closing net carrying amount	<u>50</u>	<u>5,676</u>	<u>5,726</u>
At 31 December 2009			
Gross carrying amount	197	9,815	10,012
Accumulated amortisation	(147)	(4,139)	(4,286)
Net carrying amount	<u>50</u>	<u>5,676</u>	<u>5,726</u>
For the year ended 31 December 2010			
Opening net carrying amount	50	5,676	5,726
Amortisation	(29)	(985)	(1,014)
Closing net carrying amount	<u>21</u>	<u>4,691</u>	<u>4,712</u>
At 31 December 2010			
Gross carrying amount	197	9,815	10,012
Accumulated amortisation	(176)	(5,124)	(5,300)
Net carrying amount	<u>21</u>	<u>4,691</u>	<u>4,712</u>

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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17. INVESTMENTS IN SUBSIDIARIES - Company

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	<u>161,587</u>	<u>161,587</u>

The balances with subsidiaries are unsecured, non-interest bearing and are repayable on demand.

Particulars of the subsidiaries at 31 December 2010 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
<i>Directly held:</i>					
Cofan Wealth Corporation	BVI	US\$1	100%	-	Investment holding
<i>Indirectly held:</i>					
Wealthy Summit Corporation	BVI	US\$1	-	100%	Investment holding
Triumphant Empire Inc.,	BVI	US\$1	-	100%	Investment holding
Wise Achievement Inc.	BVI	US\$1	-	100%	Investment holding
Ways (HK) Investment Limited	HK	HK\$1	-	100%	Inactive
Reyoung	PRC	RMB78,577,386	-	100%	Manufacturing and sales of pharmaceutical products
Reyoung Corporation	USA	US\$500,000	-	95%	Sales of pharmaceutical products
Shandong Yimoo	PRC	RMB34,261,040	-	100%	Manufacturing and sales of personal hygiene products
Shanghai Yimoo	PRC	RMB10,000,000	-	100%	Manufacturing and sales of personal hygiene products

The financial statements of the above subsidiaries for the year ended 31 December 2010 have been examined by BDO Limited, for the purpose of the Group's consolidated financial statements.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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18. INVENTORIES - Group

	2010 RMB'000	2009 RMB'000
Raw materials	98,382	57,173
Work-in-progress	34,731	26,756
Finished goods	<u>137,137</u>	<u>111,461</u>
	270,250	195,390
Less: Allowance for impairment	<u>(1,668)</u>	<u>(1,668)</u>
	<u>268,582</u>	<u>193,722</u>

19. TRADE AND BILLS RECEIVABLES - Group

Trade and bills receivables are non-interest bearing and are generally on 60 to 180 days' credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition. Ageing analysis of trade and bills receivables, net of allowance, as at the reporting date, based on the date of recognition of the sale, is as follows:

	2010 RMB'000	2009 RMB'000
Trade receivables		
Under 90 days	108,068	95,919
91 - 180 days	23,869	35,245
181 - 365 days	16,398	15,636
Over 365 days	<u>11,834</u>	<u>5,961</u>
	160,169	152,761
Less: Allowance for impairment	<u>(21,868)</u>	<u>(15,312)</u>
	138,301	137,449
Bills receivables	<u>15,057</u>	<u>33,082</u>
	<u>153,358</u>	<u>170,531</u>

As at 31 December 2010, RMB110,192,000 (2009: Nil) of the trade receivables of the Group have been pledged to the banks to secure the bank loans granted to the Group (note 25).

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

19. TRADE AND BILLS RECEIVABLES - Group (Continued)

Movement in the allowance for impairment of trade receivables is as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	15,312	7,878
Recognition of impairment loss for the year	<u>6,556</u>	<u>7,434</u>
At 31 December	<u>21,868</u>	<u>15,312</u>

At each reporting date, the Group reviews receivables for evidence of impairment on an individual basis. As at 31 December 2010, the Group has determined trade receivables of approximately RMB21,868,000 as individually impaired (2009: approximately RMB15,312,000). Based on this assessment, impairment loss of RMB6,556,000 (2009: RMB7,434,000) was recognised during the year.

The Group did not hold any collateral as security or other credit enhancements over the trade receivables.

Ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	146,994	164,246
Past due of less than 6 months but not impaired	<u>6,364</u>	<u>6,285</u>
	<u>153,358</u>	<u>170,531</u>

Trade and bills receivables that were neither past due nor impaired related to a wide range of customers for whom there were no recent history of default.

Trade and bills receivables that were past due but not impaired related to a number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables that were past due but not impaired.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

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20. PREPAYMENTS, OTHER RECEIVABLES AND DEPOSITS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Prepayments	937	1,700	126	90
Advances to sales representatives	1,986	4,212	-	-
Other receivables	2,419	5,369	170	200
Deposits	1,534	615	-	-
	<u>6,876</u>	<u>11,896</u>	<u>296</u>	<u>290</u>

Movement in the allowance for impairment of other receivables is as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	-	-
Recognition of impairment loss for the year	1,989	-
At 31 December	<u>1,989</u>	<u>-</u>

At each balance sheet date, the Group reviews receivables for evidence of impairment on an individual basis. As at 31 December 2010, the Group has determined other receivables of approximately RMB1,989,000 as individually impaired (2009: Nil). Based on this assessment, impairment loss of RMB1,989,000 has been recognised during the year.

21. PLEDGED BANK DEPOSITS AND TIME DEPOSITS - Group

	2010 RMB'000	2009 RMB'000
Pledged bank deposits	43,146	33,515
Time deposits	-	75,000
	<u>43,146</u>	<u>108,515</u>

The Group's bills payables amounting to approximately RMB98,000,000 (2009: approximately RMB83,500,000) are secured by the pledge of the Group's bank deposits of approximately RMB43,000,000 as at 31 December 2010 (2009: approximately RMB33,050,000) (note 23).

Certain facilities of US\$99,500 (equivalent to RMB663,000) (2009: US\$308,000 (equivalent to RMB2,104,000)) granted by a bank to the Group are secured by the pledged of the Group's bank deposits of RMB146,000 (2009: RMB465,000) and are guaranteed by Reyoung. None of the facilities was utilised at the reporting date. The effective interest rate of the pledged bank deposits is 1.98% per annum (2009: 1.98% per annum). The pledged bank deposits have a maturity of 180 days.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

22. CASH AND BANK BALANCES - Group and Company

As at 31 December 2010, the Group had cash and bank balances denominated in RMB amounting to approximately RMB247,293,000 (2009: approximately RMB169,647,000), which were deposited with the banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business. The bank balances earn interest at floating rates based on daily bank deposit rates.

23. TRADE AND BILLS PAYABLES - Group

	2010 RMB'000	2009 RMB'000
Trade payables	144,994	108,817
Bills payables	<u>128,000</u>	<u>133,500</u>
	<u>272,994</u>	<u>242,317</u>

As at 31 December 2010, the Group's bills payables of RMB98,000,000 (2009: RMB70,000,000) are secured by the Group's bank deposits (note 21); bills payables of RMB50,000,000 (2009: RMB30,000,000) are cross guaranteed by Reyoung and Shandong Yimoo; and none of the bills payables (2009: RMB13,500,000) are secured by the pledged of certain of the Group's property, plant and equipment (note 14) and the Group's bank deposits (note 21). Trade and bills payables are non-interest bearing and are generally on 60 to 120 days' credit terms.

24. ACCRUED LIABILITIES, OTHER PAYABLES AND DEPOSITS RECEIVED

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Accrued liabilities	17,194	12,936	4,927	2,739
Other payables	35,327	36,819	592	611
Deposits received	<u>30,418</u>	<u>17,832</u>	<u>-</u>	<u>-</u>
	<u>82,939</u>	<u>67,587</u>	<u>5,519</u>	<u>3,350</u>

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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25. INTEREST-BEARING BANK AND OTHER BORROWINGS - Group

	2010 RMB'000	2009 RMB'000
Current		
Bank loans	285,600	274,500
Other loans	-	30,000
	<u>285,600</u>	<u>304,500</u>
Non-current		
Bank loans	162,900	77,000
Other loans	25,000	25,000
	<u>187,900</u>	<u>102,000</u>
Total borrowings	<u>473,500</u>	<u>406,500</u>

At 31 December 2010, the Group's bank and other loans were repayable as follows:

	Bank loans		Other loans	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within one year	285,600	274,500	-	30,000
In the second year	67,300	40,000	-	-
In the third to fifth year	95,600	37,000	8,308	-
After the fifth year	-	-	16,692	25,000
	<u>448,500</u>	<u>351,500</u>	<u>25,000</u>	<u>55,000</u>
Current portion classified as current liabilities	<u>(285,600)</u>	<u>(274,500)</u>	-	<u>(30,000)</u>
Non-current portion classified as non-current liabilities	<u>162,900</u>	<u>77,000</u>	<u>25,000</u>	<u>25,000</u>

As at 31 December 2010, the Group's bank loans of RMB45,000,000 (2009: RMB5,000,000) are guaranteed by 山東鑫泉醫藥中間體有限公司 and none (2009: RMB33,000,000) of the Group's bank loans is guaranteed by 淄博市華聯礦業有限責任公司. These companies are independent of the Group.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

25. INTEREST-BEARING BANK AND OTHER BORROWINGS - Group (Continued)

The Group's bank loans of RMB217,500,000 (2009: RMB258,500,000) are secured by the pledge of certain of the Group's property, plant and equipment (note 14) and certain of the Group's land use rights (note 15); RMB20,000,000 (2009: nil) are secured by certain of the Group's trade receivables (note 19); and RMB50,000,000 (2009: RMB70,000,000) are cross guaranteed by Reyoung and Shandong Yimoo.

Except for certain bank loans of RMB292,500,000 (2009: RMB219,500,000) and other loans of RMB25,000,000 (2009: RMB25,000,000) which are interest-bearing at floating rates, all other bank and other loans of the Group are at fixed rates. Interest rates of the Group's bank loans range from 4.4% to 6.0% (2009: 4.8% to 7.5%) per annum for the year ended 31 December 2010. Interest rates of the Group's other loans range from 4.5% to 5.3% (2009: 4.5% to 5.3%) per annum for the year ended 31 December 2010.

As at 31 December 2010, the total guarantees given to the banks by Reyoung and Shandong Yimoo in connection with the bank loans granted to them were approximately RMB100,000,000 (2009: approximately RMB95,000,000).

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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26. SHARE CAPITAL

	Number of ordinary shares	Amount US\$'000
Authorised:		
As at 1 January 2009, 31 December 2009 and 31 December 2010 of US\$0.075 each	<u>600,000,000</u>	<u>45,000</u>
Issued:		
As at 1 January 2009, 31 December 2009 and 31 December 2010 as fully paid of US\$0.075 each	<u>333,400,000</u>	<u>25,005</u>

The issued share capital of the Company was equivalent to approximately RMB206,232,000 as at 31 December 2009 and 31 December 2010.

27. TREASURY SHARES

	2010 RMB'000	2009 RMB'000
At 1 January	10,724	-
Purchase of treasury shares	<u>-</u>	<u>10,724</u>
At 31 December	<u>10,724</u>	<u>10,724</u>

Treasury shares relate to ordinary shares of the Company that are held by the Company. During the year ended 31 December 2009, pursuant to the share buyback mandate approved by the shareholders, the Company purchased 19,980,000 of its ordinary shares by way of on-market purchases at share prices ranging from S\$0.11 to S\$0.28 per share. The total amount paid to purchase the shares was S\$2,369,000 (equivalent to approximately RMB10,724,000) and this is presented as a component within equity attributable to owners of the Company. During the year ended 31 December 2010, the Company did not purchase any of its ordinary shares by way of on-market purchases.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

28. OTHER RESERVES

Statutory reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the PRC subsidiaries within the Group, each of the PRC subsidiaries is required to transfer not less than 10% of its profit after tax prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of each of the PRC subsidiaries' registered capital. Such reserve may be used to reduce any losses incurred by each of the PRC subsidiaries or to be capitalised as paid-up capital of each of the PRC subsidiaries.

Merger reserve

Merger reserve represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the Group's restructuring exercise in 2005 and the nominal value of the share capital of the Company issued in exchange thereof.

Share premium

According to the bye-laws of the Company, the share premium account is not distributable.

29. OPERATING LEASE COMMITMENTS

At the reporting date, the total future minimum lease payments of the Group under non-cancellable operating leases for factory facilities are as follows:

	2010 RMB'000	2009 RMB'000
Within one year	45	56
In the second to fifth year inclusive	-	-
	<u>45</u>	<u>56</u>

The Company did not have any lease commitments as at 31 December 2009 and 2010.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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30. CAPITAL AND OTHER COMMITMENTS

At the reporting date, the Group had the following outstanding commitments:

	2010 RMB'000	2009 RMB'000
Contracted but not provided for in respect of:		
Research and development work	4,148	1,198
Construction projects	25,321	-
Intangible assets	600	600
	30,069	1,798

The Company did not have any capital commitments as at 31 December 2009 and 2010.

31. RELATED PARTY TRANSACTIONS - Group

The Group had the following transactions with related parties:

(a) During the year ended 31 December 2010, the Group paid legal and professional fees of approximately RMB227,000 (2009: approximately RMB231,000) to a law firm in which an independent director has beneficial interests.

(b) Compensation of key management personnel

	2010 RMB'000	2009 RMB'000
Total remuneration of directors and other members of key management during the year, all of which were short-term employee benefits	5,871	4,531

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue any derivative financial instruments for trading purposes.

As at 31 December 2010, the Group's financial instruments mainly consisted of trade and bills receivables, other receivables and deposits, pledged bank deposits and time deposits, cash and bank balances, trade and bills payables, accrued liabilities, other payables and interest-bearing bank and other borrowings.

(i) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The interest rates and terms of repayment of the Group's bank and other borrowings are disclosed in note 25. The Group's exposures to fair value interest rate risk on financial liabilities are minimal. The directors of the Company consider the Group's exposures to cash flow interest rate risk on bank balances (including pledged bank deposits) as follows:

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(i) Interest rate risk (Continued)

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after income tax and retained profits and the Company's profits after income tax (2009: loss after income tax) and retained profits (2009: accumulated losses) to a possible change in interest rates of +/- 0.5% (2009: +/- 0.5%), with effect from the beginning of the year. The calculations are based on the Group's bank balances held and bank and other loans with floating rates at the reporting date. All other variables are held constant.

	Group		Company			
	Profit after income tax and retained profits RMB'000		Profit after income tax and retained profits RMB'000		Loss after income tax and accumulated losses RMB'000	
	+0.5%	-0.5%	+0.5%	-0.5%	+0.5%	-0.5%
31 December 2010	49	(49)	11	(11)	-	-
31 December 2009	48	(48)	-	-	(29)	29

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the year and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The sensitivity analysis included in the financial statements for the year ended 31 December 2009 was prepared on the same basis.

The Group manages interest rate risk by monitoring its interest rate profile regularly. The Group adopts a policy of ensuring that most of its borrowings are on a fixed rate basis. The policies to manage interest rate risk have been followed by the Group since prior year and are considered to be effective.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(ii) Foreign currency risk

The Group has no significant foreign currency risk due to its limited foreign currency trade related transactions during the year and immaterial foreign currency denominated monetary assets and liabilities as at the reporting date.

(iii) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

The Group's bank balances are mainly placed with reputable PRC banks.

The carrying amounts of the trade and bills receivables and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk. The Group's policy is to deal only with credit worthy counterparties. The Group performs ongoing credit evaluation of its customers' financial position. Overdue balances and significant trade receivables are followed up. The Group has no significant concentration of credit risk due to its large customer base.

(iv) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade and bills payables and its financial obligations, and also in respect of its cash flow management.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, trade financing and capital market financing. Liquidity risk is monitored on an on-going basis.

The Group manages its liquidity needs on a consolidated basis by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as forecast cash inflows and outflows due in day to day business. Liquidity needs are monitored in various time bands.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(iv) Liquidity risk (Continued)

The liquidity policies have been followed by the Group since prior years and are considered as effective in managing liquidity risk.

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

	Group As at 31 December 2010				Total undiscounted amount RMB'000	Discount RMB'000	Carrying amount RMB'000
	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000			
Trade and bills payables	272,994	-	-	-	272,994	-	272,994
Accrued liabilities, other payables and deposits received	82,939	-	-	-	82,939	-	82,939
Interest-bearing bank and other borrowings	285,600	84,054	126,055	17,634	513,343	(39,843)	473,500
Total	641,533	84,054	126,055	17,634	869,276	(39,843)	829,433

	Group As at 31 December 2009				Total undiscounted amount RMB'000	Discount RMB'000	Carrying amount RMB'000
	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000			
Trade and bills payables	242,317	-	-	-	242,317	-	242,317
Accrued liabilities, other payables and deposits received	67,587	-	-	-	67,587	-	67,587
Interest-bearing bank and other borrowings	304,500	44,502	42,786	27,078	418,866	(12,366)	406,500
Total	614,404	44,502	42,786	27,078	728,770	(12,366)	716,404

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(iv) Liquidity risk (Continued)

	Company As at 31 December 2010						
	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000	Total undiscounted amount RMB'000	Discount RMB'000	Carrying amount RMB'000
Accrued liabilities and other payables	5,519	-	-	-	5,519	-	5,519
Due to subsidiaries	<u>66,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,609</u>	<u>-</u>	<u>66,609</u>
Total	<u>72,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,128</u>	<u>-</u>	<u>72,128</u>

	Company As at 31 December 2009						
	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000	Total undiscounted amount RMB'000	Discount RMB'000	Carrying amount RMB'000
Accrued liabilities and other payables	3,350	-	-	-	3,350	-	3,350
Due to subsidiaries	<u>80,912</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,912</u>	<u>-</u>	<u>80,912</u>
Total	<u>84,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,262</u>	<u>-</u>	<u>84,262</u>

(v) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of the non-current financial liabilities was not disclosed because the carrying amount is not materially different from the fair value since their interest rates are considered as closely approximated to the prevailing market rates of similar financial instruments.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(vi) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and Company's financial assets and liabilities as recognised at the reporting dates may also be categorised as follows. See notes 3(h) and 3(j) for explanations about how the categorisation of financial instruments affects their subsequent measurement.

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables:				
Current assets				
- Trade and bills receivables	153,358	170,531	-	-
- Due from subsidiaries	-	-	153,802	153,802
- Other receivables and deposits	5,939	10,196	170	200
- Pledged bank deposits and time deposits	43,146	108,515	-	-
- Cash and bank balances	253,925	176,697	2,195	2,226
	456,368	465,939	156,167	156,228
Financial liabilities				
Financial liabilities measured at amortised cost:				
Current liabilities				
- Trade and bills payables	272,994	242,317	-	-
- Accrued liabilities, other payables and deposits received	82,939	67,587	5,519	3,350
- Interest-bearing bank and other borrowings	285,600	304,500	-	-
- Due to subsidiaries	-	-	66,609	80,912
Non-current liabilities				
- Interest-bearing bank and other borrowings	187,900	102,000	-	-
	829,433	716,404	72,128	84,262

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(vii) Fair value measurements recognised in the statement financial position - Group

The fair value hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

As at 31 December 2009 and 2010, no financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy.

(viii) Business risk

The Group's primary businesses are the manufacturing and sales of pharmaceutical products and personal hygiene products. The Group's financial results are influenced by the changes in prices of pharmaceutical products and personal hygiene products, as well as by the Group's ability to maintain or renew all requisite certificates, permits and business licences from relevant regulatory authorities in the PRC which the Group requires to operate in the manufacturing and sales of pharmaceutical products and personal hygiene products.

REYOUNG PHARMACEUTICAL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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33. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- (a) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for its members and other stakeholders;
- (b) to support the Group's stability and growth; and
- (c) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2010 amounted to approximately RMB541,426,000 (2009: approximately RMB495,525,000), which management considers as optimal having considered the projected capital expenditures and the forecast strategic investment opportunities.

34. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2010 were approved and authorised for issue by the board of directors on 18 March 2011.