



China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00512



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Corporate Information

EXECUTIVE DIRECTORS

Mr Liu Chengwei (*Chairman*)
 Mr Hu Bo (*Deputy Chairman*)
 Dr Shao Yan (*Chief Executive Officer*)
 Dr Zhang Ji

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie
 Mr Lo Kai, Lawrence
 Dr Pei Geng

COMPANY SECRETARY

Mr Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr Liu Chengwei
 Mr Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms So Tosi Wan, Winnie (*Chairman*)
 Mr Lo Kai, Lawrence
 Dr Pei Geng

REMUNERATION COMMITTEE

Ms So Tosi Wan, Winnie (*Chairman*)
 Mr Liu Chengwei
 Mr Lo Kai, Lawrence

NOMINATION COMMITTEE

Ms So Tosi Wan, Winnie (*Chairman*)
 Dr Shao Yan
 Mr Lo Kai, Lawrence

WEBSITE

www.chinagrandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
 Chartered Accountants
 Certified Public Accountants

LEGAL ADVISERS

Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
 26 Burnaby Street
 Hamilton HM 11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
 Shops 1712-1716, Hopewell Centre
 183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

HSBC
 China Construction Bank
 China Merchants Bank
 Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
 Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Units 3302, The Center
 99 Queen's Road Central, Hong Kong

Management Discussion and Analysis

Business Review

In 2012, the Group commits to expand business through self-expansion and acquisition of related medical assets in order to maintain relatively high growth rate. We have executed a few business acquisition transactions during the year, and also performed several production improvement projects and expanded more new markets in order to obtain higher return and more market shares. We also extended the sales network and the product bases and aimed to become one of the largest manufacturers of pharmaceutical and healthcare products in the PRC.

During the year 2012, the Group has acquired approximately 25.93% additional equity interests in the Grand Pharmaceutical (China) Co., Limited (the “Grand Pharm (China)”) through tender and business negotiation. As a result, the equity interests in the Grand Pharm (China) held by the Group was increased from approximately 73.67% to 99.60%. The Board is optimistic on the future development of Grand Pharm (China), and is of the view that the acquisition of additional interest in the Grand Pharm (China) may allow the Group to consolidate its control over Grand Pharm (China) and generate good return from its growing business in the future.

In November 2012, the Group used RMB72 million as consideration to acquire the entire equity interest in Hubei Wellness Pharmaceutical Co., Ltd. (the “Hubei Wellness”). The Hubei Wellness has certain patents in related to the cerebro-cardiovascular medicines and antibiotics and also a few production licenses for pharmaceutical preparation products. It also has advanced manufacturing and research facilities, and a sales network for its products which has already contributed returns. It is expected that the products of the Hubei Wellness may result in a synergy effect with the core cerebro-cardiovascular medicines products of the Group and provide fruitful return in the coming future.

Furthermore, the Group also entered a subscription agreement in February 2012 to issue 41,240,000 new shares of the Company (“Share(s)”) at HK\$0.333 each Share. The issuance of new Shares may not only enlarge the shareholder bases of the Group, the proceeds from this transaction may also support the business development of the Group, including the settlement of the consideration for the acquisition of equity interest of Grand Pharm (China) and for other working capital purpose.

Turnover

For the year ended 31 December 2012, the Group recorded a turnover of approximately HK\$2,059.3 million, which increased by approximately 25.0% in compare with the same period of last year. The average gross profit margin of the Group was approximately 31.3%, which maintained at a similar level as 2011.

Management Discussion and Analysis

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products include cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines, etc. During the year ended 31 December 2012, the turnover amount of pharmaceutical preparations was approximately RMB535.59 million and was increased by approximately 26.0% in compare with the same period of last year.

– Cerebro-cardiovascular medicines

The cerebro-cardiovascular medicine is the core product and the business growth engine of the Group. The Group is expanding the sales network in the second-tier cities of PRC and already has certain returns. For the year ended 31 December 2012, the turnover of the cerebro-cardiovascular medicines of the Group recorded approximately RMB195.33 million and was increased by approximately 51% in compare with the same period of 2011. The turnover amount of the Noradrenaline Bitartrate was approximately RMB49.44 million which recorded an increment rate of approximately 143%. The Tirofiban, an anti-platelet drug, also recorded a turnover of approximately RMB69.89 million.

– Ophthalmic medicines and other pharmaceutical preparations

During the current financial year, the turnover amount of ophthalmic medicines increased by approximately 30.5% to approximately RMB151.91 million in compare with 2011. This is mainly due to the Group has explored a new sales channel for an ophthalmic medicine Polyvinyl Alcohol in Shanghai and thus recorded a turnover amount of approximately RMB27.5 million, which was increased by approximately 87% in compare with the same period of last year. Other products, such as antipyretics and analgesic medicine Analgin also maintained constant growth and recorded approximately RMB33.32 million turnover amount, which was increased by approximately RMB5.14 million in compare with the same period of last year.

Pharmaceutical intermediates

The pharmaceutical intermediates are also major products of the Group, which include pharmaceuticals raw materials such as Analgin, Metronidazole and Chloramphenicol and other amino acids products. For the year ended 31 December 2012, the turnover amount of pharmaceutical intermediates was approximately RMB532.20 million, while it was approximately RMB494.15 million in the same period of 2011.

– Pharmaceutical raw materials

During the year ended 31 December 2012, the turnover amount of pharmaceuticals raw materials was approximately RMB306.78 million, while it was approximately RMB293.82 million in the same period of last year. The turnover amount of Chloramphenicol, a raw material of antibiotics which the Group commenced the development since 2011, was approximately RMB63.37 million and the increment rate is over 1 time.

– Amino acids products

The Group is one of the largest manufacturers of amino acids products in the PRC. Other than the Acetyl Cysteine series, the Group is also developing other amino acids products such as L-cysteine HCl Monohydrate. For the year ended 31 December 2012, the turnover amount of the amino acids products of the Group was approximately RMB225.41 million, which was increased by approximately 12.5% in compare with the same period of last year. The Group also put many efforts to develop the export business to the Europe market, in which the export amount was increased from approximately RMB39.80 million in 2011 to approximately RMB47.60 million in the current year.

Management Discussion and Analysis

Steroid hormones and its intermediates

The Group is one of the few steroid hormones raw materials manufacturers in the PRC, and our products quality has been accepted by the PRC and overseas customers. Certain products have passed the quality assurance test of Europe EDQM and received Europe COS certification. In order to cope with the growing demand of customers, the new plant in Jiangsu was in the testing stage. It is expected to commence production in the first half of 2013, and it will enhance the production capacity and technology for steroid hormones raw materials of the Group. During the current review period, the turnover amount of steroid hormones of the Group was approximately RMB204.67 million and was increased by approximately 10.0% in compare with the same period of last year.

– Glucocorticoid

The Glucocorticoid products of the Group include Betamethasone and Dexamethasone, which are the raw materials for anti-inflammatory and anti-allergic medicines. The Betamethasone is currently staying at the leading position in the PRC. The turnover amount of these 2 Glucocorticoid products during this year was approximately RMB167.99 million, which was increased by approximately RMB7.02 million in compare with the same period of last year.

– Sex Hormones

Cyproterone Acetate is one of the core products of the Group in sex hormones product series. It is male hormones used in treatment for prostate cancer and benign prostatic hyperplasia diseases. In 2012, the turnover amount was approximately RMB27.77 million with approximately 34.6% increment in compare with last year. This is mainly due to the production line in Zhejiang Xianle has increased the production capacity in order to cope with the demands of our products in the market.

Healthcare and chemical products

The healthcare and chemical products manufactured and sold by the Group include Taurine, Calcium Superphosphate and Dimethyl Sulfate, and the bio-pesticides and bio-feed additives products which are the principal products of the Wuhan Kernel Bio Tech Co., Limited (the “Wuhan Kernel”), a company acquired at the end of 2011. These products already have certain market shares and are well recognised by customers. During the year 2012, the turnover amount of the relevant products was approximately RMB429.34 million, while the turnover amount of the relevant products attributed to the Group in the same period of last year was approximately RMB270.22 million.

– Taurine

The Group is one of the largest exporters of Taurine in the PRC, and we have done several production technology enhancement projects in the past years, which enhanced the product quality and production efficiency and provided returns to the Group. In 2012, the turnover amount of Taurine products was approximately RMB109.72 million and was increased by approximately 51.8% as compared with the same period of last year.

– Calcium Superphosphate and Dimethyl Sulfate

Calcium Superphosphate is agrochemicals, and the product of the Group is one of the well-known brands in the PRC. In 2012, the turnover amount of Calcium Superphosphate was approximately RMB132.74 million and was increased by approximately 66.3% than last year. Other products such as Nitromethane also provided approximately RMB30.64 million turnover and was increased by approximately RMB9.40 million as compared with 2011.

Management Discussion and Analysis

Distribution costs

Distribution costs of the year were approximately HK\$340.31 million, while it was approximately HK\$261.91 million in the same period of last year. In 2012, the main business strategy of the Group was exploration of new markets, especially the second-tier cities in the PRC, in order to capture market shares and build up solid market for the promotion of new products in the future. As a result it incurred more distribution costs than the previous year.

Administrative expenses

The administrative expenses of the Group in 2012 were approximately HK\$236.99 million, which was increased by approximately 15.1% than last year. The increment was mainly contributed by the business restructuring and expansion of business scale.

Finance costs

For the year ended 31 December 2012, the finance costs of the Group were approximately HK\$41.80 million, while they were approximately HK\$26.41 million in 2011. The increment was mainly due to the addition of short-term loans which are financing the short-term operation expenses during the expansion of production capacities and reallocation of production plants.

Outlook and Future Prospects

The PRC, as the world's second largest pharmaceutical market after the United States, is under the spotlight on the international stage. According to the statistics set out in the "Blue Book of Medicine and Pharmaceuticals: Annual Report on China's Pharmaceutical Market (2012)" (醫藥藍皮書：中國藥品市場報告 (2012)) published by the Chinese Academy of Social Sciences in February 2013, the total output of the pharmaceutical market of the PRC amounted to RMB926.1 billion in 2012. The compound annual growth rate of the pharmaceutical product market in the PRC during the period from 2005 to 2010 reached over 20%, and is expected to be approximately 12% each year for the period from 2013 to 2020.

Firstly, as to the characteristics of market development, the Chinese pharmaceutical market is characterised as: expands rapidly, has fierce competition, industrial concentration ratio remains low, and is materially influenced by the Government's policies.

Secondly, as to the momentum of the pharmaceutical market development, according to the latest data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) in 2012 will reach RMB51,932.2 billion, representing a growth rate of 7.8% as compared to the previous year. Since 2010, China has become the world's second largest economy in terms of GDP. The continuous rapid growth of the China's economy has been serving as an important financial support for the development of both the society and the social security industry, which in turn provides opportunities of rapid development for the pharmaceutical market. In addition, according to the Study Report on the World Population Life Expectancy (United Nations 2003), the rate of population ageing in China has speeded up due to fertility policies and longer life expectancy. The percentage of elderly population (aged 60 and above) in China is expected to increase from 13.66% in 2010 to 18.57% in 2020, while the proportion of the China's elderly over the total aged population in the world is expected to increase from 21% to 25%. As such, the development of China's economy and social security, combining with the population aging issues will become an important driving force for the sustainable development of PRC's pharmaceutical market in the future.

Management Discussion and Analysis

Thirdly, as to the development of pharmaceutical industry, the State Council of China published the “Development Plans for the Bio-Industry” (《生物產業發展規劃》) in February 2012, which emphasised the full support for the development of such industries as bio-medicine, bio-agriculture, bio-manufacturing and bio-energy. In recent years, development focus of the global pharmaceutical market has gradually shifted from small-molecule chemical drugs to biotechnology drugs, which accounted for 13% of the global pharmaceutical market in 2006, and increased to approximately 17%. According to the Chinese Biotechnology Industry Report (《中國生物技術產業報告》) released by the China Association of Enterprises with Foreign Investment in January 2013, the total value of Chinese bio-pharmaceutical market in 2012 reached RMB18 billion, accounted for 2% of the global biotechnology drug market.

Embraced by the opportunities and challenges in the development of the pharmaceutical market of the PRC, the Group has, as for exploring our own potential, focused on several arduous tasks in the last year, including completion of relocation, construction and renovation of the four production bases and part of the production facilities for ophthalmic medicines, cerebro-cardiovascular medicines, specialised raw materials and healthcare products and also steroid hormones products, which ensures the production safety and rapid sales growth of our pharmaceutical products, particularly our core products. For industrial expansion, the Group has seized the opportunities raised from low industrial concentration ratio and industry restructuring. Through investment activities, such as asset acquisition and formation of joint ventures, the Group has further diversified our core pharmaceutical products portfolio and obtained certain bio-technology and products, and successfully entered the cancer medicine domain – a significant medicine treatment area.

In the coming years, the Group plans to: (1) leverage off the international certified high-tech production facilities which were newly built, for the enhancement of production and sales of our core products, such as cerebro-cardiovascular medicines, ophthalmic medicines and cancer medicines, further enhancing the gross profit margin of our products, as well as increasing our products’ market share. In addition, the Group will ride on our subsidiaries’ unique edges in the field of steroidal medicines to expand the market share of existing products, develop new world-class products and strengthen our market position in this area; (2) fully integrate the synergies among the members of the Group, particularly in the area of technology research and development and the production arrangement for industry chain, in order to enhance the Group’s overall production efficiency, lower the costs and improve the profitability; (3) make use of our subsidiaries’ biotechnology platform to research and develop bio-pharmaceutical products, enhance production technology, reduce the costs of production of the existing products, and introduce new products. Biotechnology related pharmaceutical products will become an important driver of the Group’s profit growth in the future.

Looking forward, the Group will ride on opportunities raised from the development of the PRC’s pharmaceutical market, and strive to become one of the well-established pharmaceutical enterprises in China with optimal efficiency and rapid development, and one of the fastest growing enterprises in the pharmaceutical sector in the Hong Kong capital market, so as to maximise the returns for both the Group and its shareholders.

Financial resources and liquidity

As at 31 December 2012, the Group had current assets of HK\$1,239,579,000 (31 December 2011: HK\$1,087,425,000) and current liabilities of HK\$1,956,654,000 (31 December 2011: HK\$1,030,797,000). The current ratio was 0.63 at 31 December 2012 as compared with 1.05 at 31 December 2011.

The Group’s cash and bank balances as at 31 December 2012 amounted to HK\$304,588,000 (31 December 2011: HK\$343,348,000), of which were mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi.

Management Discussion and Analysis

As at 31 December 2012, the Group had outstanding bank loans of HK\$1,421,333,000 (31 December 2011: HK\$732,065,000). Included in the bank loans, there were bank loans of approximately HK\$345,585,000 and HK\$13,000,000 were denominated in US\$ and HK\$ respectively. All other bank loans are denominated in RMB and granted by banks in the PRC, Japan and Hong Kong. The interest rates charged by banks ranged from 3.08% to 7.50% (31 December 2011: 2.5% to 7.22%) per annum, in which approximately HK\$222,648,000 bank loans were charged at fixed interest rates. These bank loans were pledged by assets of the Group with a net book value of HK\$73,863,000 (31 December 2011: HK\$189,047,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 189% at 31 December 2012 as compared with 115% at 31 December 2011.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2012, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Employees and Remuneration Policy

As at 31 December 2012, the Group employed about 4,800 staff and workers in Hong Kong and the PRC (31 December 2011: about 3,700). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Material Acquisitions and Disposals

On 14 February 2012, China Grand Pharmaceutical (Hong Kong) Limited (the "China Grand (Hong Kong)") and 武漢英納威管理諮詢有限公司 (Wuhan Ying Na Wei Management Consultancy Limited#) (the "Ying Na Wei") entered into a share transfer agreement, in which agreed that the China Grand (Hong Kong) may acquire 2.28% equity interest in Grand Pharm (China) held by the Ying Na Wei at a consideration of approximately RMB9.66 million. Such acquisition was completed in March 2012.

On 14 February 2012, the Company and the Ying Na Wei entered into a subscription agreement, in which Ying Na Wei may subscribe 41,240,000 new ordinary shares of HK\$0.01 each in the share capital of the Company at the subscription price of HK\$0.333 per subscription share, which is a discount of approximately 2.1% to the closing price of HK\$0.34 per Share as quoted on the Stock Exchange on the date of the subscription agreement. The net proceed from this subscription is approximately HK\$13.7 million. The reason for this subscription is to allow the Company to enlarge the shareholder base, and the proceeds from this subscription is used to settle the consideration for the acquisition of 2.28% equity interest in the Grand Pharm (China) and other working capital purpose.

On 12 November 2012, Grand Pharm (China) and 湖北絲寶藥業有限公司 (Hubei C-Bons Pharmaceutical Co., Ltd#) (the "Hubei C-Bons") entered into a share transfer agreement, in which agreed that the Grand Pharm (China) may acquire the entire equity interest in 湖北舒邦藥業有限公司 (Hubei Wellness Pharmaceutical Co., Ltd.#) held by the Hubei C-Bons at a consideration of approximately RMB72.0 million. Such acquisition was completed in November 2012.

Management Discussion and Analysis

On 17 December 2012, 武漢和勤艾管理諮詢有限公司 (Wuhan Heqinlove Consultation Management Co., Ltd.#) (the “Heqinlove”) and 武漢國有資產經營公司 (Wuhan State-Owned Assets Management Limited#) entered into a share transfer agreement, in which agreed that the Heqinlove may acquire 20.26% equity interest in Grand Pharm (China) held by the Wuhan State-Owned Assets Management Limited at a consideration of approximately RMB134.9 million. Such acquisition was completed in December 2012.

On 21 December 2012, the Heqinlove and 武漢開元科技創業投資有限公司 (Wuhan KeyWin Venture Capital Co., Ltd.#) entered into a share transfer agreement, in which agreed that the Heqinlove may acquire 3.39% equity interest in Grand Pharm (China) held by the Wuhan KeyWin Venture Capital Co., Ltd. at a consideration of approximately RMB20.064 million. Such acquisition was completed in December 2012.

After these 3 acquisitions of additional interest in the Grand Pharm (China), the Group beneficially owned approximately 99.60% equity interest of the Grand Pharm (China).

Future Plans For Material Investments

Except for those set out in the “Subsequent Events” in this report, the Group had authorised but not provided for capital expenditure commitments of approximately HK\$321 million in respect of acquisition of non-current assets as at 31 December 2012.

Subsequent Events

In January 2013, the Group entered into a licensing agreement with BiohitOyj (the “Biohit”), a Finnish company principally engaged in research, manufacture, sale of pharmaceutical and healthcare products, in related to the provision of right from Biohit to Grand Pharm (China) to use the intellectual property rights and know-how of Biohit to exclusively manufacture and distribute the acetaldehyde binding products developed by Biohit in the PRC. It is expected to provide profit return to the Group in the coming future.

On 22 February 2013, the Grand Pharm (China) and 黃石飛雲製藥有限公司 (HuangShi Feiyun Pharmaceutical Company Limited#) (the “HuangShi Feiyun”) entered into a joint venture agreement to establish 遠大醫藥黃石飛雲製藥有限公司 (China Grand Pharmaceutical Huangshi Feiyun Company Limited#). Its registered capital will be RMB125 million, in which will be owned as to 60% and 40% by the Grand Pharm (China) and the HuangShi Feiyun respectively. RMB75,000,000 (equivalent to approximately HK\$93,200,000) will be contributed by the Grand Pharm (China), and the balance of RMB50,000,000 will be contributed by HuangShi Feiyun.

Contingent Liabilities

As at 31 December 2012, the directors of the Company were not aware of any material contingent liabilities.

Appreciation

On behalf of the Board, I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Liu Chengwei
Chairman

Hong Kong, 25 March 2013

Biographical Details of Directors and Senior Management

Executive Directors

Mr Liu Chengwei, aged 39, was appointed executive director of the Company in July 2008. Mr Liu is the Chairman of the Company and is a director of Grand Pharm (China), the principal subsidiary of the Company. Mr Liu is also a director of Huadong Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. Mr Liu has over 10 years of financial and management experience in the PRC. Mr Liu is currently the General Manager of the Pharmaceutical Industry Division of China Grand Enterprises Incorporation (“China Grand”) and a director of China Grand. Mr Liu worked for General Electric Company’s China subsidiaries for 5 years before joining China Grand in 2001. Mr Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr Hu Bo, aged 28, was appointed executive director of the Company in July 2008. Mr Hu has over 5 years of experience in network project management and property management. Mr Hu is currently the deputy general manager of a real estate company in the PRC. Mr Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr Hu is a nephew of Mr Hu Kaijun, the beneficial owner of Outwit, which is the controlling shareholder of the Company.

Dr Shao Yan, aged 50, was appointed executive director of the Company in October 2008. Dr Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr Shao has over 20 years of experience in corporate management and venture capital investment. Dr Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr Zhang Ji, aged 51, was appointed non-executive director of the Company in November 2008 and was redesignated as executive director of the Company in February 2010. Dr Zhang has over 16 years of experience in conducting drug discovery, research and development in the US pharmaceutical industry. Dr Zhang is currently the General Manager of the R&D centre of the management head quarter of the China Grand. Dr Zhang worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years before joining China Grand in 2008. Dr Zhang holds both a bachelor degree in Microbiology and a master’s degree in Virology from Wuhan University, and a doctor degree (PhD) in Pharmacology and Molecular Biology from Chicago Medical School.

Independent Non-executive Directors

Ms So Tosi Wan, Winnie, aged 50, was appointed independent non-executive director of the Company in March 2005. Ms So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr Lo Kai, Lawrence, aged 56, was appointed independent non-executive director of the Company in June 2008. Mr Lo has over 20 years of experience in wealth and asset management business. Currently, he is the CEO of UBP Asia Limited. Prior to that, he was the CEO of BSI-Generali Asia (“BSI”) and was responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Dr Pei Geng, aged 53, was appointed independent non-executive director of the Company in May 2011. Dr Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

Biographical Details of Directors and Senior Management

Senior Management

Mr Foo Tin Chung, Victor, aged 44, joined the Company in September 2011 as the Company Secretary of the Company. Mr Foo holds a bachelor's degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr Foo is an executive director of Jinheng Automotive Safety Technology Holdings Limited and an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited, which both companies are listed on the Stock Exchange.

Mr Xie Guofan, aged 62, was appointed as the director of the principal subsidiary Grand Pharm (China) since 1994. Mr Xie is responsible for overseeing entire operations and management of Grand Pharm (China), he has over 30 years of experience in corporate management and pharmaceutical manufacturing. Mr Xie holds a practicing pharmacist license in the PRC.

Mr Shi Xiaofeng, aged 46, was appointed as General Manager of the principal subsidiary Grand Pharm (China). Mr Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), he has over 20 years of experience in the pharmaceutical industry management. Mr Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr Shi holds a medical degree from Medical School of Southeast University and a EMBA degree at China Europe International Business School.

Mr Ye Bo, aged 53, was appointed as the director of Zhejiang Xianle. Mr Ye is responsible for overseeing the entire operation management of Zhejiang Xianle.

Mr Feng Yonghua, aged 45, was appointed as the General Manager of Zhejiang Xianle. Mr Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr Feng holds a practicing pharmacist license in the PRC.

Corporate Governance Report

Corporate Governance Practices

The Code on Corporate Governance Practices (the “Former Code”) was revised and renamed as the Corporate Governance Code (the “Revised Code”) on 1 April 2012 contained in Appendix 14 to the Listing Rules.

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. The Company has complied with all the code provisions of the Former Code for the period from 1 January 2012 to 31 March 2012 and of the Revised Code for the period from 1 April 2012 to 31 December 2012 contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012, except the following:

Code provision A.1.8 of the Revised Code requires that the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Company has been reviewing a suitable and cost-efficient directors and officers liability insurance to cover the liabilities of its directors and officers during the period. An insurance policy was concluded by the Group in November 2012. As the date of this report, no claim has been reported.

Corporate Governance Report

This report also provides the status of the Company’s compliance with the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as follows:

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the year ended 31 December 2012.

Board of Directors

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive directors – Mr Liu Chengwei, Mr Hu Bo, Dr Shao Yan and Dr Zhang Ji and 3 independent non-executive directors – Ms So Tosi Wan, Winnie, Mr Lo Kai, Lawrence and Dr Pei Geng. Mr Liu Chengwei is the Chairman and Dr Shao Yan is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Mr Liu, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Dr Shao, as the Chief Executive Officer, focuses on the day-to-day management of the Group’s business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors are independent and meet the independent guidelines set out in the Listing Rules.

All directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company’s Bye-Laws.

Corporate Governance Report

Training, Induction and Continuing Development of Directors

Each Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure the he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

Audit Committee

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The audit committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the audit committee consists of three independent non-executive directors namely, Ms So Tosi Wan, Winnie (Chairman), Mr Lo Kai, Lawrence and Dr Pei Geng. Ms So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The audit committee held two meetings during the year ended 31 December 2012 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference. Currently, the remuneration committee is chaired by Ms So Tosi Wan, Winnie with an executive director Mr Liu Chengwei and an independent non-executive director Mr Lo Kai, Lawrence as members.

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and reviewing specific remuneration package of all directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The remuneration committee met twice during the year to review the remuneration policy for all directors and senior management.

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2012 are set out in note 14 to the consolidated financial statements.

Corporate Governance Report

Nomination Committee

The Company has established a nomination committee with written terms of reference. Currently, the nomination committee is chaired by Ms So Tosi Wan, Winnie with an executive director Dr Shao Yan and an independent non-executive director Mr Lo Kai, Lawrence as members.

The nomination committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The nomination committee held a meeting in 2012 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

Attendance Record at Meetings

The attendance records of each director at the various meetings of the Company during the year ended 31 December 2012 are set out as below:

Directors	Annual General Meeting	Meetings Attended/Held			Nomination Committee
		Board	Audit Committee	Remuneration Committee	
Mr Liu Chengwei	1/1	9/9	N/A	2/2	N/A
Mr Hu Bo	1/1	9/9	N/A	N/A	N/A
Dr Shao Yan	1/1	9/9	N/A	N/A	1/1
Dr Zhang Ji	1/1	9/9	N/A	N/A	N/A
Ms So Tosi Wan, Winnie	1/1	9/9	2/2	2/2	1/1
Mr Lo Kai, Lawrence	1/1	7/9	2/2	2/2	1/1
Dr Pei Geng	1/1	9/9	2/2	N/A	N/A

Auditors' Remuneration

During the year, the auditors performed the work of statutory audit for the year of 2012 and were also involved in non-audit assignment of acting as the reporting accountants of the Company's circular dated 14 September 2012.

The audit committee was satisfied that the non-audit services provided by the auditors did not affect its independence.

Audit fees and fees for non-audit services for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK\$1,200,000, and HK\$1,190,000 respectively.

Financial Reporting

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently.

Internal Control

The Board has the overall responsibility for maintaining an effective internal control system to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and ensure compliance with applicable legislation and regulations. The internal control system provides a reasonable but not absolute assurance against material errors, losses or fraud.

The Board has reviewed the effectiveness of the internal control system and will conduct an annual review on the system in order to make it effective and practical.

Communication with Shareholders and Investors

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend general meetings of the Company which allows the directors to meet and communicate with them.

Shareholders' Rights

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Unit 3302, The Centre,
99 Queen's Road Central,
Hong Kong
Email: victor.foo@chinagrandpharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Constitutional Documents

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye-laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

Report of the Directors

The directors are pleased to present their report together with the audited consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2012.

Principal Activities

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 21 and 17 to the consolidated financial statements respectively.

Results

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out on pages 23 to 93.

Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil). No interim dividend was declared during the year (2011: Nil).

Reserves

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 37 to the consolidated financial statements respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

Pre-emptive Rights

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

Subsidiaries and Associates

Particulars of the Company’s subsidiaries and associates at 31 December 2012 are set out in notes 21 and 17 to the consolidated financial statements respectively.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

Bank Borrowings

Particulars of bank borrowings of the Group during the year are set out in note 30 to the consolidated financial statements.

Directors

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr Liu Chengwei
Mr Hu Bo
Dr Shao Yan
Dr Zhang Ji

Independent non-executive directors

Ms So Tosi Wan, Winnie
Mr Lo Kai, Lawrence
Dr Pei Geng

Pursuant to bye-law 87(1), Mr Hu Bo, Ms So Tosi Wan, Winnie and Dr Pei Geng will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether direct or indirect, subsisted at the end of the year or at any time during the year.

Competing Interest

Save that Mr Liu Chengwei, the chairman and an executive director, who is director of some pharmaceutical companies in the PRC (including China Grand and Huadong Medicine Company Limited) and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the directors are aware of, no directors or their associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Report of the Directors

Related Party Transactions

For the year ended 31 December 2012, the related party transactions entered by the Group are all disclosed in note 40 in the consolidated financial statements and in the section “Connected Transactions” in the report of the directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 40 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

Connected Transactions

For the year ended 31 December 2012, the Group has entered the following connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

- 1) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the “Grand Pharm R&D Agreement”) with Yuan Chuang Yi Cheng Pharmaceutical Technology Limited (the “Yuan Chuang Yi Cheng”). Pursuant to the Grand Pharm R&D Agreement, Yuan Chuang Yi Cheng shall provide research and development services for improvement of Metoprolol Tartrate tablets to Grand Pharm (China) or its related companies and the service fees payable by Grand Pharm (China) is RMB1.1 million.
- 2) On 28 November 2012, Zhejiang Xianle has entered into an agreement (the “Xianle Sub-contracting Agreement”) with Jiang Su Jiu Yang Biological Pharmaceutical Limited (the “Jiang Su Jiu Yang”). Pursuant to the Xianle Sub-contracting Agreement, Zhejiang Xianle or its related companies shall sub-contract the processing works of steroid hormones and intermediates to Jiang Su Jiu Yang, and the consideration under the Xianle Sub-contracting Agreement is RMB0.19 million.
- 3) On 21 December 2012, Grand Pharm (China) has entered into an agreement (the “Grand Pharm R&D Supplemental Agreement I”) with Yuan Chuang Yi Cheng. Pursuant to the Grand Pharm R&D Supplemental Agreement I, Yuan Chuang Yi Cheng shall provide research and development services for Bosentan to Grand Pharm (China) or its related companies before 31 December 2012 and the service fees payable by Grand Pharm (China) is RMB0.5 million.
- 4) On 21 December 2012, Grand Pharm (China) has entered into an agreement (the “Grand Pharm R&D Supplemental Agreement II”) with Yuan Chuang Yi Cheng. Pursuant to the Grand Pharm R&D Supplemental Agreement II, Yuan Chuang Yi Cheng shall provide research and development services for Trimetazidine to Grand Pharm (China) or its related companies before 31 December 2012 and the service fees payable by Grand Pharm (China) is RMB1.0 million.
- 5) On 21 December 2012, Grand Pharm (China) has entered into an agreement (the “Grand Pharm R&D Supplemental Agreement III”) with Yuan Nuo Wei Sheng Pharmaceutical Technology Limited (the “Yuan Nuo Wei Sheng”). Pursuant to the Grand Pharm R&D Supplemental Agreement III, Yuan Nuo Wei Sheng shall provide research and development services for Bimatoprost pharmaceutical raw material and Bimatoprost eyedrops to Grand Pharm (China) or its related companies before 31 December 2012 and the service fees payable by Grand Pharm (China) is RMB3.5 million.

As Yuan Chuang Yi Cheng, Yuan Nuo Wei Sheng and Jiang Su Jiu Yang are regarded as connected persons of the Company since they are associates of the China Grand Enterprises Incorporation (which is a connected person of the Company since it is owned as to (i) approximately 49.00% by 北京遠大華創投資有限公司 and (ii) approximately 51.00% by 北京炎黃置業有限公司 respectively, and both companies are controlled and ultimately and beneficially owned by Mr Hu Kaijun, who is the sole shareholder of Outwit Investments Limited which is

Report of the Directors

the substantial shareholder of the Company holding approximately 62.60% of the total issued Shares), and the subject matters of each of the Xianle Sub-contracting Agreement, Grand Pharm R&D Agreement, Grand Pharm R&D Supplemental Agreement I, Grand Pharm R&D Supplemental Agreement II and Grand Pharm R&D Supplemental Agreement III (collectively known as “Connected Transaction Agreements”) are similar in nature, under Chapter 14A of the Listing Rules the transactions between the Group and each of these companies should be aggregated together. As the applicable percentage ratios in connection with the service fees payable for the transactions contemplated respectively under the Connected Transaction Agreements on an aggregated basis are less than 25% and do not exceed HK\$10,000,000, the Connected Transaction Agreements constitute connected transactions on the part of the Company and are not subject to the independent Shareholder’s approval but the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Share Option Scheme

The share option scheme of the Company was adopted on 17 May 2002 under which the Board may, at its discretion, offer to grant employees and directors of the Group and other eligible persons options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. Such share option scheme was expired on 16 May 2012, and the Company did not adopt any new share option scheme.

No share options were granted or exercised under the share option scheme during the year ended 31 December 2012 and there were no outstanding share options as at 31 December 2012.

Directors’ and Chief Executive’s Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2012, the directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”):

Long positions in the shares of the Company:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company’s issued share capital
Shao Yan	Interests in spouse (Note)	1,000,000	0.05%

Note: Dr Shao Yan, a director of the Company, is the spouse of Ms Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr Shao Yan shall be deemed to be interested in such 1,000,000 shares.

Substantial Shareholders

As at 31 December 2012, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Report of the Directors

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	1,228,275,094	62.60%
Mr Hu Kaijun (Note)	1,228,275,094	62.60%

Note: These shares are held by Outwit Investments Limited, the entire issued share capital of which is wholly owned by Mr Hu Kaijun.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Major Customers and Suppliers

For the year ended 31 December 2012, the five largest customers of the Group accounted for less than 30% of the Group's total turnover while the five largest suppliers accounted for less than 30% the Group's total purchases.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2012.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 12 to 15.

Auditors

On 19 February 2013, the shareholders of the Company approved to appoint HLB Hodgson Impey Cheng Limited as auditors of the Company in the special general meeting to fill the casual vacancy created by SHINEWING (HK) CPA Limited.

HLB Hodgson Impey Cheng Limited will retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 25 March 2013

Independent Auditors' Report



Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED *(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 93, which comprise the consolidated and the Company statements of financial position at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty concerning going concern basis of accounting

Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicate that the Group had net current liabilities of approximately HK\$717,075,000 at 31 December 2012. These conditions, along with other matters as set forth in note 3 to the financial statements, indicate that existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by another auditors who expressed an unmodified opinion on those statements on 29 March 2012.

HLB Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

Hon Koon Fai, Alex

Practising Certificate Number: P05029

Hong Kong, 25 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Turnover	7	2,059,307	1,647,576
Cost of sales		(1,414,124)	(1,132,477)
Gross profit		645,183	515,099
Other revenue and income	8	89,790	78,429
Distribution costs		(340,313)	(261,906)
Administrative expenses		(236,986)	(205,911)
Other operating expenses		(353)	(346)
Share of results of associates	17	15	504
Finance costs	9	(41,801)	(26,405)
Profit before tax		115,535	99,464
Income tax expense	10	(10,830)	(12,793)
Profit for the year	11	104,705	86,671
Other comprehensive income/(loss), net of income tax			
Exchange difference on translation of foreign operations		10,572	24,381
Change in fair value of available-for-sale financial assets, after tax		196	(3,844)
Other comprehensive income for the year, net of income tax		10,768	20,537
Total comprehensive income for the year, net of income tax		115,473	107,208
Profit for the year attributable to:			
– Owners of the Company		67,305	54,235
– Non-controlling interests		37,400	32,436
		104,705	86,671
Total comprehensive income attributable to:			
– Owners of the Company		76,809	70,963
– Non-controlling interests		38,664	36,245
		115,473	107,208
Earnings per share			
Basic (HK cents)	13	3.46	2.82
Diluted (HK cents)	13	3.46	2.82

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment	15	1,423,363	726,068
Prepaid lease payments	16	434,655	365,228
Interests in associates	17	11,750	8,469
Available-for-sale financial assets	18	52,498	51,737
Deposits for acquisition of non-current assets	19	27,804	74,680
Goodwill	20	97,133	72,037
Intangible assets	22	298	649
Deferred tax assets	23	3,661	3,623
Prepayments	24	26,028	23,984
Loan receivables	25	37,316	17,247
		2,114,506	1,343,722
Current assets			
Inventories	26	442,297	319,163
Trade and other receivables	27	443,436	341,280
Loan receivables	25	14,926	7,392
Prepaid lease payments – current portion	16	10,516	9,303
Pledged bank deposits	28	23,816	66,939
Cash and cash equivalents	28	304,588	343,348
		1,239,579	1,087,425
Current liabilities			
Trade and other payables	29	614,466	300,695
Bank borrowings	30	1,305,755	695,231
Income tax payable		36,433	34,871
		1,956,654	1,030,797
Net current (liabilities)/assets		(717,075)	56,628
Total assets less current liabilities		1,397,431	1,400,350
Non-current liabilities			
Bank borrowings	30	115,578	36,834
Deferred tax liabilities	33	81,463	82,816
Amount due to holding company	34	19,649	12,656
Deferred income	35	301,012	298,125
		517,702	430,431
Net assets		879,729	969,919

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Capital and reserves attributable to owners of the Company			
Share capital	36	19,620	19,208
Reserves	37	733,654	619,970
		753,274	639,178
Non-controlling interests		126,455	330,741
Total equity		879,729	969,919

The consolidated financial statements on pages 23 to 93 were approved and authorised for issue by the Board of Directors of the Company on 25 March 2013 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Financial Position

At 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment	15	87	300
Interests in subsidiaries	21	406,132	394,407
		406,219	394,707
Current assets			
Other receivables	27	1,817	2,027
Cash and cash equivalents	28	470	13,433
		2,287	15,460
Current liabilities			
Other payables	29	402	727
Bond issued	31	20,000	31,000
Amount due to a subsidiary	32	1,560	1,560
		21,962	33,287
Net current liabilities		(19,675)	(17,827)
Total assets less current liabilities		386,544	376,880
Non-current liabilities			
Amount due to holding company	34	19,649	12,656
Net assets		366,895	364,224
Capital and reserves attributable to owners of the Company			
Share capital	36	19,620	19,208
Reserves	37	347,275	345,016
Total equity		366,895	364,224

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

Note	Attributable to owners of the Company											Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contribution surplus reserve HK\$'000	Statutory reserve HK\$'000	Safety fund reserve HK\$'000	Translation reserve HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Equity attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	
At 1 January 2011	19,208	268,628	121,273	8,500	1,482	17,556	5,911	2,014	123,214	567,786	279,063	846,849
Profit for the year	-	-	-	-	-	-	-	-	54,235	54,235	32,436	86,671
Other comprehensive income for the year:												
Exchange difference on translation of foreign operations	-	-	-	-	-	19,560	-	-	-	19,560	4,821	24,381
Change in fair value of available- for-sale financial assets	-	-	-	-	-	-	(3,776)	-	-	(3,776)	(1,350)	(5,126)
Income tax relating to change in fair value of available-for-sale financial assets	-	-	-	-	-	-	944	-	-	944	338	1,282
Total comprehensive income for the year	-	-	-	-	-	19,560	(2,832)	-	54,235	70,963	36,245	107,208
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	7	-	7	(6,447)	(6,440)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3,076)	(3,076)
Arising from deemed acquisition of non-controlling interests	-	-	-	-	-	-	-	422	-	422	(422)	-
Non-controlling interests arising on the acquisition of subsidiaries	39	-	-	-	-	-	-	-	-	-	25,378	25,378
Transfer	-	-	-	8,301	3,351	-	-	-	(11,652)	-	-	-
At 31 December 2011 and 1 January 2012	19,208	268,628	121,273	16,801	4,833	37,116	3,079	2,443	165,797	639,178	330,741	969,919
Profit for the year	-	-	-	-	-	-	-	-	67,305	67,305	37,400	104,705
Other comprehensive income for the year:												
Exchange difference on translation of foreign operations	-	-	-	-	-	9,355	-	-	-	9,355	1,217	10,572
Change in fair value of available- for-sale financial assets	-	-	-	-	-	-	198	-	-	198	63	261
Income tax relating to change in fair value of available-for-sale financial assets	-	-	-	-	-	-	(49)	-	-	(49)	(16)	(65)
Total comprehensive income for the year	-	-	-	-	-	9,355	149	-	67,305	76,809	38,664	115,473
Acquisition of additional interests in a subsidiary	45	-	-	-	-	-	-	23,554	-	23,554	(230,081)	(206,527)
Issuance of shares through subscription	412	13,321	-	-	-	-	-	-	-	13,733	-	13,733
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(29,935)	(29,935)
Non-controlling interests arising on the formation of a subsidiary	-	-	-	-	-	-	-	-	-	-	17,066	17,066
Transfer	-	-	-	29,836	3,331	-	-	-	(33,167)	-	-	-
At 31 December 2012	19,620	281,949	121,273	46,637	8,164	46,471	3,228	25,997	199,935	753,274	126,455	879,729

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

Notes:

- a. Each of the Company's the PRC subsidiary's Articles of Association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.
- b. According to the document (Cai Qi [2006] No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.
- c. Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Operating activities		
Profit before tax	115,535	99,464
Adjustments for:		
Amortisation of intangible assets	353	346
Amortisation of prepaid lease payments	10,969	6,722
Depreciation of property, plant and equipment	68,898	45,669
Dividend income from available-for-sale financial assets	-	(325)
Finance costs	41,801	26,405
Gain on disposal of property, plant and equipment	(1,019)	(3,964)
Write-off of property, plant and equipment	1,227	8,008
Compensation for write-off of property, plant and equipment	-	(10,058)
Impairment loss on inventories	868	1,297
Impairment loss on trade and other receivables	5,815	2,605
Bank interest income	(5,431)	(4,837)
Reversal of impairment loss on trade and other receivables	(2,099)	(463)
Share of results of associates	(15)	(504)
Investment income	(3,588)	(1,865)
Write-back of financial guarantee liabilities	-	(427)
Operating cash flows before movements in working capital	233,314	168,073
Increase in inventories	(118,653)	(84,109)
Increase in trade and other receivables	(96,302)	(24,821)
Increase/(decrease) in trade and other payables	291,421	(32,224)
Net cash generated from operations	309,780	26,919
Income tax paid	(17,157)	(15,225)
Net cash generated from operating activities	292,623	11,694
Investing activities		
Purchase of property, plant and equipment	(734,300)	(271,824)
Acquisition of prepaid lease payments	(62,107)	(15,483)
Decrease/(increase) in pledged bank deposits	43,771	(11,763)
Decrease/(increase) in deposits for acquisition of non-current assets	47,599	(61,549)
Increase in non-current prepayments	(1,812)	(2,608)
Proceeds from disposal of property, plant and equipment	2,091	5,880
Compensation for write-off of property, plant and equipment	-	10,058
Bank interest income received	5,431	4,837
Investment income	3,588	1,865
Acquisition of available-for-sale financial assets	-	(20,216)
Dividend income received from available-for-sale financial assets	-	325
Receipts of deferred income	-	210,659
Increase in loan receivable	(27,365)	(24,639)
Net cash outflow from acquisition of subsidiaries	(68,248)	(113,625)
Acquisition of additional interest in a subsidiary	(206,527)	-
Net cash used in investing activities	(997,879)	(288,083)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Financing activities		
Repayments of bank loans	(1,380,570)	(618,272)
Interest paid	(41,801)	(26,405)
Proceeds from new borrowings	2,063,106	987,895
Proceeds from holding company	6,993	76
Dividend paid to non-controlling interests	(3,060)	(3,076)
Proceeds from subscription of shares	13,733	–
Net cash generated from financing activities	658,401	340,218
Net (decrease)/increase in cash and cash equivalents	(46,855)	63,829
Cash and cash equivalents at the beginning of the year	343,348	306,999
Effect of foreign exchange rate changes	8,095	(27,480)
Cash and cash equivalents at the end of the year, representing		
Cash and cash equivalents	304,588	343,348

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. General Information

China Grand Pharmaceutical and Healthcare Holdings Limited (the “Company”) is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in “Corporate information” section of the annual report.

The Company acts as an investment holding company, in which its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the manufacture and sales of pharmaceutical, healthcare and chemical products in the People’s Republic of China (the “PRC”).

The directors consider that Outwit Investments Limited (“Outwit”) is the parent and ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the same as the functional currency of the Company, and the functional currency of most of the subsidiaries is Renminbi (“RMB”). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK\$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK\$ (HK\$’000), unless otherwise stated.

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied the following new and revised Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for annual periods beginning on or after 1 January 2012.

HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets

The application of these new HKFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements. The impact of the application of the new HKFRSs is discussed below:

The amendments to HKFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The Group did not enter into any types of transfers of financial assets during the year. The amendments to HKFRS 7 have had no material impact on the disclosure requirements in the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 Cycle ²
Amendments to HKFRS 1	Government Loan ²
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ³
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ¹
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ³
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²
HKFRS 9 and HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
	Mandatory Effective Date of HKFRS 9 and Transition Disclosure ⁴
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interest in Other Entities ²
HKFRS 13	Fair Value Measurement ²

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2014.

⁴ Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for the classification and measurement of financial liabilities and for derecognition.

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

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Change in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

The directors anticipate that HKFRS 9 that will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups’ financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Annual improvements to HKFRSs 2009-2011 Cycle include a number of amendments to various HKFRSs. The amendments to HKFRSs include:

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments will have a significant effect on the Group’s consolidated financial statements.

The amendments to HKAS 32 clarify that income tax relating to distributions holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments will have no effect on the Group’s consolidated financial statements as the Group has already adopted this treatment.

For other new and revised HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group’s results of operations and financial position.

3. Significant Accounting Policies

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

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

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group’s net current liabilities of approximately HK\$717,075,000 as at 31 December 2012. The directors of the Company have taken the following factors to consider the future liquidity which include, but not limited to, the followings: (i) as set out in note 35 to the financial statements, the Group has compensation of approximately RMB513,000,000 (equivalent to approximately HK\$638,000,000) not yet received by the Group from the Land Reserve Centre; (ii) as set out in note 5 to the financial statements, the Group has unused banking facilities of approximately HK\$1,041 million as at 31 December 2012; and (iii) Outwit Investments Limited, a shareholder of the Company, has agreed to provide continuing financial support to the Group. As such, the directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The principal accounting policies are set out below:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Change in the values of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit and loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Acquisition of additional interest in a subsidiary

When the Group increases its interest in an entity that is already controlled by the Group, goodwill arising on such acquisition represents the difference between the cost of additional interest acquired and the increase in the Group's share of the net carrying amount of the identifiable assets, liabilities and contingent liabilities acquired. The difference between the cost of additional interest acquired and the book value of the identifiable assets, liabilities and contingent liabilities attributable to the additional interest acquired is recognised as a reserve movement (other reserve). The difference represents the difference that arose since the original acquisition date that is attributable to the Group's increased interest in the subsidiary. On the subsequent disposal of the subsidiary, the reserve is transferred to retained earnings.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Interests in associates (Continued)

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Revenue recognition

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

Sale of goods

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

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

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Dividend income

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

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Taxation

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

Current tax

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

Deferred tax

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax (Continued)

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

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

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

Current and deferred tax for the year

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

Property, plant and equipment

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

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

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Intangible assets

Intangible assets acquired separately

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

Research and development expenditure

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

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Retirement benefit costs

Payment to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expense when employees have rendered services entitling them to the contribution.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment disposed of is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment on financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Impairment on financial assets (Continued)

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the available-for-sale financial assets revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

Other financial liabilities (including trade and other payables, bank borrowings and amount due to holding company) are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Related party transactions

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. Critical Accounting Judgement And Key Sources Of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statement.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in HKAS 18 *Revenue* and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liabilities in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, management is satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs.

Key source of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2012 was HK\$97,133,000 (2011: HK\$72,037,000). Details of the recoverable amount calculation are disclosed in note 20.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 5 and 20 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. Critical Accounting Judgement And Key Sources Of Estimation Uncertainty (Continued)

Income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues 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 current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of investment properties, property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for its investment properties, property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of investment properties, property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

During the year ended 31 December 2012, the Group did not change the estimated useful lives of property, plant and equipment, intangible assets, investment properties.

5. Financial Instruments

(a) Categories of financial instruments

The Group

	2012 HK\$'000	2011 HK\$'000
Financial assets		
Available-for-sale financial assets	52,498	51,737
Loans and receivables (including cash and cash equivalents)		
– Loan receivables	52,242	24,639
– Trade and other receivables	330,161	298,016
– Pledged bank deposits	23,816	66,939
– Cash and cash equivalents	304,588	343,348
	710,807	732,942
Financial liabilities		
At amortised costs		
– Trade and other payables	582,664	259,830
– Bank borrowings	1,421,333	732,065
– Amount due to holding company	19,649	12,656
	2,023,646	1,004,551

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(a) Categories of financial instruments (Continued)

The Company

	2012 HK\$'000	2011 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
– Amounts due from subsidiaries	98,105	86,380
– Other receivables	1,224	1,881
– Cash and cash equivalents	470	13,433
	99,799	101,694
Financial liabilities		
At amortised costs		
– Other payables	402	727
– Bond issued	20,000	31,000
– Amount due to a subsidiary	1,560	1,560
– Amount due to holding company	19,649	12,656
	41,611	45,943

(b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include available-for-sale financial assets, bank borrowings, trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, amount due to a subsidiary and amount due to holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i. Currency risk

The Group

The Group's presentation currency is HK\$, however, the Group's functional currency is RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, bank balances and cash, trade and other payables, bank borrowings and amount due to holding company are denominated in foreign currencies of United State dollars ("USD") and HK\$. Such USD and HK\$ denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD and HK\$.

The Group currently does not have any USD and HK\$ hedging policy but the management monitors USD and HK\$ exchange exposure and will consider hedging significant USD and HK\$ exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

i. Currency risk (Continued)

The Group (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% (2011: 5%) in exchange rate of USD and HK\$ against RMB while all other variables are held constant. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at end of each reporting period for a 5% change in foreign currency rates.

	2012 HK\$'000	2011 HK\$'000
Increase/(decrease) in profit for the year		
– if USD weakens against of RMB	10,434	1,724
– if USD strengthens against of RMB	(10,434)	(1,724)
Increase/(decrease) in profit for the year		
– if HK\$ weakens against of RMB	359	(104)
– if HK\$ strengthens against of RMB	(359)	104

A change of 5% in exchange rate of USD and HK\$ against RMB does not affect other components of equity except the translation reserve.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2012 HK\$'000	2011 HK\$'000
USD		
Trade and other receivables	68,150	50,687
Cash and cash equivalents	30,375	11,471
Trade and other payables	(110)	(853)
Bank borrowings	(307,088)	(95,778)
HK\$		
Trade and other receivables	–	2,027
Cash and cash equivalents	12,468	13,433
Trade and other payables	–	(727)
Amount due to holding company	(19,649)	(12,656)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

ii. Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates and variable-rate borrowings. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

The Company has no significant interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2011: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2011: 100 basic points) at beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK\$6,136,000 (2011: increase/decrease by approximately HK\$704,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings.

iii. Liquidity risk

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

At 31 December 2012, maximum banking facilities in an aggregate amount of approximately HK\$2,413 million (2011: approximately HK\$1,435 million) were available from the Group's principal bankers, of which approximately HK\$1,372 million (2011: HK\$732 million) has been utilised.

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

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

iii. Liquidity risk (Continued)

The Group

At 31 December 2012

	Weighted average interest rate %	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	Carrying amount HK\$'000
Trade and other payables	–	582,664	582,664	–	582,664
Bank borrowings	5.66%	1,501,158	1,379,122	122,036	1,421,333
Amount due to holding company	5%	20,257	–	20,257	19,649
		2,104,079	1,961,786	142,293	2,023,646

At 31 December 2011

	Weighted average interest rate %	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	Carrying amount HK\$'000
Trade and other payables	–	259,830	259,830	–	259,830
Bank borrowings	2.26%	751,609	707,132	44,477	732,065
Amount due to holding company	5%	13,289	–	13,289	12,656
		1,024,728	966,962	57,766	1,004,551

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

iii. Liquidity risk (Continued)

The Company

At 31 December 2012

	Weighted average interest rate %	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	Carrying amount HK\$'000
Other payables	–	402	402	–	402
Bond issued	6.56%	21,312	21,312	–	20,000
Amount due to subsidiary	–	1,560	1,560	–	1,560
Amount due to holding company	5%	20,257	–	20,257	19,649
		43,531	23,274	20,257	41,611

At 31 December 2011

	Weighted average interest rate %	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	Carrying amount HK\$'000
Other payables	–	727	727	–	727
Bond issued	6.56%	33,034	33,034	–	31,000
Amount due to subsidiary	–	1,560	1,560	–	1,560
Amount due to holding company	5%	13,289	–	13,289	12,656
		48,610	35,321	13,289	45,943

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

iv. Credit risk

The Group's maximum exposure to credit risk in the event of the counter parties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for unallocated advances/deposits from these entities.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and provision of services are made to customers with an appropriate credit history. The Group's deposits in bank and deposits placed with a financial institution are placed in high quality financial institutions without significant exposure to credit risk.

The directors consider that there is no significant credit risk in respect of the Group's deposits in banks and deposits placed with a financial institution as the financial institution has no record of default payment.

v. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

The directors consider the fair values of trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to holding company approximate to its carrying amount as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

v. Fair value (Continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from 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).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Available-for-sale financial assets	10,363	–	–	10,363

	2011			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Available-for-sale financial assets	10,006	–	–	10,006

There were no transfers between all levels in both years.

Reconciliation of Level 3 fair value measurement of financial liabilities

	Financial guarantee liabilities HK\$'000
At 1 January 2011	427
Total gain	
– in profit or loss	(427)
– in other comprehensive income	–
At 31 December 2011, 1 January 2012 and 31 December 2012	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

v. Fair value (Continued)

Reconciliation of Level 3 fair value measurement of financial liabilities (Continued)

Of the total gains or losses for the year included in profit or loss, HK\$nil (2011: HK\$427,000) relates to write-back of financial guarantee liabilities which are included in other income.

Included in other comprehensive income is an amount of HK\$nil (2011: HK\$nil) relate to exchange difference arising on translating the financial guarantee liabilities denominated in RMB to HK\$ at the end of the reporting period and is reported as changes of 'translation reserve'.

6. Capital Risk Management

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

The capital structure of the Group consists of debt, which includes bank borrowings and amount due to holding company, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

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

The gearing ratio at the end of the reporting period was as follows:

	2012 HK\$'000	2011 HK\$'000
Debts (Note 1)	1,440,982	744,721
Cash and cash equivalents	(328,404)	(410,287)
Net debt	1,112,578	334,434
Equity (Note 2)	753,274	639,178
Net debt to equity ratio	148%	52%

Notes:

- 1) Debt comprises long-term and short-term borrowings and amount due to holding company respectively.
- 2) Equity includes all capital and reserves attributable to owners of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

7. Turnover and Segment Information

For the year ended 31 December 2012, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
The PRC	1,369,487	1,179,231	2,058,347	1,288,362
America	174,613	86,686	-	-
Europe	246,098	204,725	-	-
Asia other than the PRC	260,467	141,625	-	-
Others	8,642	35,309	-	-
Total	2,059,307	1,647,576	2,058,347	1,288,362

Note: Non-current assets excluded available-for-sale financial assets and deferred tax assets.

Information about major customers

For the years ended 31 December 2012 and 2011, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. Other Revenue and Income

	2012 HK\$'000	2011 HK\$'000
Government grants	65,480	50,087
Interest income	5,431	4,837
Sales of raw materials, scrap and other materials, net	6,430	4,294
Investment income	3,588	1,865
Rental income	2,065	783
Dividend income from available-for-sale financial assets	–	325
Compensation for written off of property, plant and equipment	–	10,058
Gain on disposal of property, plant and equipment	1,019	3,964
Reversal of impairment loss on trade and other receivables	2,099	463
Write-back of financial guarantee liabilities	–	427
Others	3,678	1,326
	89,790	78,429

9. Finance Costs

	2012 HK\$'000	2011 HK\$'000
Interest on bank borrowings wholly repayable within five years	41,410	25,924
Interest on amount due to holding company	391	481
	41,801	26,405

10. Income Tax Expense

	2012 HK\$'000	2011 HK\$'000
Current tax:		
The PRC Enterprise Income Tax	13,117	14,850
Deferred taxation (<i>note 33</i>)	(2,287)	(2,057)
	10,830	12,793

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

10. Income Tax Expense (Continued)

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company incurred a taxation loss for the year. Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

The charge for the year is reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK\$'000	HK\$'000
Profit before tax	115,535	99,464
Tax at the domestic income tax rate of 25% (2011: 25%)	28,884	24,866
Tax effect of share of profit or associates	(4)	(126)
Tax effect of expenses not deductible for tax purpose	34,819	12,221
Tax effect of income not taxable for tax purpose	(15,618)	(4,916)
Tax effect of deductible temporary differences not recognised	4,127	2,746
Effect of tax exemptions granted to the PRC subsidiaries	(461)	(5,778)
Income tax on concessionary rate	(3,760)	(8,350)
Utilisation of tax losses previously not recognised	(36,788)	(7,870)
Under provision in respect of prior year	(369)	–
Tax charge for the year	10,830	12,793

The applicable tax rate of 25% (2011: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11. Profit for the Year

	2012 HK\$'000	2011 HK\$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	244,152	200,216
– Retirement benefits schemes contributions	27,680	13,323
	271,832	213,539
Depreciation of property, plant and equipment	68,898	45,669
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	10,969	6,722
Amortisation of intangible assets (included in other operating expenses)	353	346
Total depreciation and amortisation	80,220	52,737
Impairment losses on financial assets		
– trade and other receivables	5,815	2,605
– reversal of impairment loss on trade and other receivables (included in other revenue and income)	(2,099)	(463)
Impairment losses of financial assets, net	3,716	2,142
Auditors' remuneration		
– audit services	1,200	1,880
– non-audit services	1,190	–
Share of tax of associates	149	147
Cost of inventories recognised as an expense	1,414,124	1,132,477
Operating lease rentals in respect of land and buildings	1,583	6,809
Gain on disposal of property, plant and equipment	(1,019)	(3,964)
Write-off of property, plant and equipment	1,227	8,008
Impairment loss on inventories	868	1,297
Net foreign exchange losses	5,056	8,252
Research and development expenditure	48,516	37,769

12. Dividend

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: HK\$nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2012 HK\$'000	2011 HK\$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share calculation	67,305	54,235
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share calculation	1,946,942	1,920,801

Diluted earnings per share was the same as the basic earnings per share because there was no potential diluted ordinary shares outstanding during the years ended 31 December 2012 and 2011.

14. Directors' and Employees' Emoluments

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2012 HK\$'000	2011 HK\$'000
Fees:		
Executive directors	150	150
Independent non-executive directors	300	300
	450	450
Other emoluments:		
Salaries and allowances	1,424	1,099
Retirement benefits scheme contributions	14	12
	1,888	1,561

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2012 and 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

14. Directors' and Employees' Emoluments (Continued)

(a) Directors' emoluments (Continued)

The emoluments paid or payable to each of the seven (2011: seven) directors for the year ended 31 December 2012 were as follows:

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits schemes contributions HK\$'000	Total HK\$'000
Executive directors:				
Mr Liu Chengwei	50	–	–	50
Mr Hu Bo	50	–	–	50
Dr Shao Yan	–	1,424	14	1,438
Dr Zhang Ji	50	–	–	50
Independent non-executive directors:				
Ms So Tosi Wan, Winnie	180	–	–	180
Mr Lo Kai, Lawrence	60	–	–	60
Dr Pei Geng	60	–	–	60
Total	450	1,424	14	1,888

Details of directors' emoluments for the year ended 31 December 2011 were as follows:

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits schemes contributions HK\$'000	Total HK\$'000
Executive directors:				
Mr Liu Chengwei	50	–	–	50
Mr Hu Bo	50	–	–	50
Dr Shao Yan	–	1,099	12	1,111
Dr Zhang Ji	50	–	–	50
Independent non-executive directors:				
Ms So Tosi Wan, Winnie	180	–	–	180
Mr Lo Kai, Lawrence	60	–	–	60
Mr Xin Dongsheng (resigned on 12 May 2011)	–	–	–	–
Dr Pei Geng (appointed on 12 May 2011)	60	–	–	60
Total	450	1,099	12	1,561

During the years ended 31 December 2012 and 2011, no directors of the Company waived any emoluments.

During the years ended 31 December 2012 and 2011, the executive director of the Company, Dr Shao Yan, was the chief executive officer of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

14. Directors' and Employees' Emoluments (Continued)

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2011: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2011: four) individuals were as follows:

	2012 HK\$'000	2011 HK\$'000
Employees		
Salaries and allowances	5,240	4,591
Retirement benefits schemes contributions	128	44
	5,368	4,635

There emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	2	3
	4	4

During both years ended 31 December 2012 and 2011, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

15. Property, Plant and Equipment

The Group

	Buildings HK\$'000	Allocated land HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Equipment HK\$'000	Others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost								
At 1 January 2011	237,633	1,784	217,807	12,553	10,984	412	16,882	498,055
Additions	827	-	21,757	4,494	6,726	-	238,020	271,824
Acquired on acquisition of a subsidiary	20,967	-	5,996	1,828	359	-	2,905	32,055
Disposals	(1,088)	-	(2,118)	(500)	(796)	-	(760)	(5,262)
Write-off	(5,701)	-	(7,818)	-	-	-	-	(13,519)
Transfer	18,690	-	29,658	-	501	-	(48,849)	-
Exchange realignment	11,733	65	11,375	712	644	-	5,125	29,654
At 31 December 2011 and at 1 January 2012	283,061	1,849	276,657	19,087	18,418	412	213,323	812,807
Additions	542	-	32,838	5,782	10,413	-	684,725	734,300
Acquired on acquisition of a subsidiary	20,248	-	4,326	-	1,911	-	-	26,485
Disposals	-	-	(65)	(2,159)	-	-	-	(2,224)
Write-off	-	-	(5,552)	(1,572)	(543)	-	-	(7,667)
Transfer	92,737	-	179,657	475	13,515	-	(286,384)	-
Exchange realignment	4,980	18	1,532	185	473	-	2,068	9,256
At 31 December 2012	401,568	1,867	489,393	21,798	44,187	412	613,732	1,572,957
Accumulated depreciation and impairment								
At 1 January 2011	14,163	-	26,523	1,960	4,079	412	-	47,137
Depreciation provided for the year	12,906	-	27,559	1,887	3,317	-	-	45,669
Eliminated on disposals	(598)	-	(1,846)	(456)	(446)	-	-	(3,346)
Eliminated on write-off	(1,509)	-	(4,002)	-	-	-	-	(5,511)
Exchange realignment	897	-	1,521	123	249	-	-	2,790
At 31 December 2011 and at 1 January 2012	25,859	-	49,755	3,514	7,199	412	-	86,739
Depreciation provided for the year	16,332	-	44,710	2,473	5,383	-	-	68,898
Eliminated on disposals	-	-	(11)	(1,141)	-	-	-	(1,152)
Eliminated on write-off	-	-	(4,574)	(1,354)	(512)	-	-	(6,440)
Exchange realignment	441	-	952	35	121	-	-	1,549
At 31 December 2012	42,632	-	90,832	3,527	12,191	412	-	149,594
Net carrying values								
At 31 December 2012	358,936	1,867	398,561	18,271	31,996	-	613,732	1,423,363
At 31 December 2011	257,202	1,849	226,902	15,573	11,219	-	213,323	726,068

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

15. Property, Plant and Equipment (Continued)

The Company

	Equipment HK\$'000
Cost	
At 1 January 2011, 31 December 2011 and at 1 January 2012	568
Additions	48
Written-off	(379)
At 31 December 2012	237
Accumulated depreciation and impairment	
At 1 January 2011	219
Depreciation provided for the year	49
At 31 December 2011 and at 1 January 2012	268
Depreciation provided for the year	71
Written off	(189)
At 31 December 2012	150
Net carrying values	
At 31 December 2012	87
At 31 December 2011	300

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

Allocated land	Nil
Buildings	2.5% – 5%
Plant and machinery	5% – 10%
Equipment	12% – 20%
Motor vehicles	10% – 20%
Others	12.5% – 20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant the PRC's authorities.

Buildings are held in the PRC under medium-term leases.

An allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 41.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

16. Prepaid Lease Payments

The Group's prepaid lease payments are held under the medium-term leases in the PRC.

	2012 HK\$'000	2011 HK\$'000
At the beginning of the year	374,531	252,791
Arising on acquisition of subsidiaries	17,025	80,325
Additions	62,107	40,121
Amortisation for the year	(10,969)	(6,722)
Exchange realignment	2,477	8,016
At the end of the year	445,171	374,531
Analysed for reporting purposes as:		
Current assets	10,516	9,303
Non-current assets	434,655	365,228
	445,171	374,531

Certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 41.

17. Interests in Associates

The Group

	2012 HK\$'000	2011 HK\$'000
Cost of unlisted investments	3,671	3,671
Share of post-acquisition profits and other comprehensive income	4,895	4,582
Share of net assets of associates	8,566	8,253
Amounts due from associates	3,184	216
	11,750	8,469

Amounts due from associates are unsecured, interest-free and not repayable within next twelve months.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

17. Interests in Associates (Continued)

The Group (Continued)

The summarised financial information in respect of the Group's associates is set out below:

	2012 HK\$'000	2011 HK\$'000
Total assets	22,039	21,316
Total liabilities	(4,654)	(4,571)
Net assets	17,385	16,745
Group's share of net assets of associates	8,566	8,253
Revenue	24,411	29,644
Profit for the year	51	1,031
Share of results of associates for the year	15	504

Details of the principal associates as at 31 December 2012 and 2011 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest attributable to the Group for associates		Particulars of issued/ paid-up capital	Principal activities
			2012	2011		
Yangxin Fuxin Chemical Company Limited ("Yangxin Fuxin") (Note (a))	The PRC/ The PRC	Limited liability company	40.22%	29.75%	Contributed capital RMB2,000,000	Production and sales fine chemicals and chemical medicine
武漢智蓄生物科技股份有限公司 (Note (b))	The PRC/ The PRC	Limited liability company	40.35%	29.85%	Contributed capital RMB4,000,000	Research and development, production and sale of bio-pesticides and additives

Notes:

- (a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.
- (b) 武漢智蓄生物科技股份有限公司 was an associate of Wuhan Kernel Bio Tech Co., Limited ("Wuhan Kernel") and Wuhan Kernel was acquired by the Group as a subsidiary pursuant to an agreement signed on 22 September 2011. Details are disclosed in note 39(ii).

The above table lists the associates of the group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

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18. Available-for-sale Financial Assets

The Group

	2012 HK\$'000	2011 HK\$'000
Listed securities:		
– Listed equity securities in the PRC at fair value	10,363	10,006
Unlisted securities:		
– Unlisted equity securities, at cost	42,135	41,731
	52,498	51,737

The above unlisted equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

19. Deposits for Acquisition of Non-current Assets

The Group

	2012 HK\$'000	2011 HK\$'000
Purchase of land use right (Note (a))	7,463	63,690
Purchase of land use right and a building (Note (b))	3,695	3,659
Purchase of a building (Note (c))	2,105	2,084
Purchase of plant machineries	14,541	5,247
	27,804	74,680

Note:

- (a) On 26 September 2010, Zhejiang Xianle entered into an agreement with the relevant government authority to acquire certain assets including a land use right amounted to RMB6,000,000 (equivalent to approximately HK\$7,463,000) within a specified period as stipulated in the agreement. Deposits of RMB3,500,000 (equivalent to approximately HK\$4,353,000) was paid during the year ended 31 December 2011. During the year, remaining balance of RMB2,500,000 (equivalent to approximately HK\$3,110,000) was paid. As at 31 December 2012, the Group was in the progress of obtaining the land use right certificate.

On 22 December 2010, Hubei Fuchi paid RMB6,030,000 (equivalent to approximately HK\$7,429,000) to the relevant government authority for the purpose of amending the usage of certain government allocated lands as industrial lands. During the year, additional amounts of RMB280,000 (equivalent to approximately HK\$344,000) was incurred for the lands. As at 31 December 2011, the Group was in the process of obtaining the updated land use right certificates with revised usage. The land use right certificate was obtained during the current year.

On 28 April 2011, Wuhan Wuyao Pharmaceutical Co., Limited (“Wuhan Wuyao”) entered into another agreement with 陽新縣國土資源局 to acquire another land use rights of two pieces of land located in the PRC. The total consideration of the land use right amounting to RMB41,890,000 (equivalent to approximately HK\$51,605,000) which was fully paid by Wuhan Wuyao during the year. As at 31 December 2011, the Group was in the progress of obtaining the land use right certificates. The land use right certificate was obtained during the current year.

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19. Deposits for Acquisition of Non-current Assets (Continued)

The Group (Continued)

Note: (Continued)

- (b) Wuhan Grand Hoyo Company Limited (“Wuhan Grand Hoyo”), a subsidiary of the Group entered into an agreement with an independent third party to acquire land and a building amounted to RMB3,300,000 (equivalent to approximately HK\$4,066,000) in which RMB2,970,000 (equivalent to approximately HK\$3,695,000) was paid by Wuhan Grand Hoyo as deposits. The Group was in the progress of obtaining the land use right and building certificates.
- (c) In 2010, Zhejiang Xianle prepaid RMB1,128,000 (equivalent to approximately HK\$1,404,000) to an independent third party to acquire a building with a contract price of RMB1,880,000 (equivalent to approximately HK\$2,316,000). In 2011, approximately RMB564,000 (equivalent to approximately HK\$701,000) was paid. As at 31 December 2012, the Group was in the progress to obtain the building certificate.

20. Goodwill

The Group

	HK\$'000
At 1 January 2011	54,944
Arising on acquisition of a subsidiary (Note 39(ii))	17,093
At 31 December 2011 and 1 January 2012	72,037
Arising on acquisition of a subsidiary (Note 39(i))	25,096
At 31 December 2012	97,133

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating unit (“CGU”):

- Zhejiang Xianju Xianle Pharmaceutical Company Limited (“Zhejiang Xianle”)
- Wuhan Kernel
- Hubei Wellness Pharmaceutical Co., Ltd. (“Hubei Wellness”)

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

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2012 HK\$'000	2011 HK\$'000
Zhejiang Xianle	54,944	54,944
Wuhan Kernel	17,093	17,093
Hubei Wellness	25,096	-
	97,133	72,037

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

20. Goodwill (Continued)

The Group (Continued)

Notes:

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14% (2011: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 14% (2011: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

21. Interests in Subsidiaries

The Company

	The Company	
	2012	2011
	HK\$'000	HK\$'000
Unlisted shares, at cost	308,027	308,027
Amounts due from subsidiaries	98,105	86,380
	406,132	394,407

The amounts due from subsidiaries are unsecured, interest free and not recoverable within next twelve months.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

21. Interests in Subsidiaries (Continued)

The Company (Continued)

Particulars of the Group's principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held		Particulars of issued paid-up capital	Principal activities
			2012	2011		
Grand Pharmaceutical (China) Co., Limited ("Grand Pharm (China)") (note (iv), (vi) & (vii))	PRC/PRC	Limited liability company	99.60%	73.67%	Contributed capital RMB185,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (note (i) & (vii))	PRC/PRC	Limited liability company	98.94%	73.18%	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (note (ii) & (vii))	PRC/PRC	Limited liability company	62.15%	45.97%	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (note (vii))	PRC/PRC	Limited liability company	82.09%	60.72%	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand Everyday Bright Eyes Company Limited ("Hubei Grand EBE") (note (vii))	PRC/PRC	Limited liability company	99.60%	73.67%	Contributed capital RMB114,000,000	Production and sales ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	67%	67%	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (note (iii) & (vii))	PRC/PRC	Limited liability company	80.70%	59.69%	Contributed capital RMB57,368,880	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (note (v))	PRC/PRC	Limited liability company	99.60%	–	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

21. Interests in Subsidiaries (Continued)

The Company (Continued)

Note:

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

- (i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.
- (ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010 for the reason as mentioned therein.

During the last year, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%. Further details were set out in note 19(b) above.
- (iii) As disclosed in note 39(ii), Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.
- (iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK\$11.91 million). The Group recognised a decrease in non-controlling interests and an increase in other reserve of approximately HK\$18,047,000 and HK\$6,133,000 respectively.
- (v) As disclosed in note 39(i), Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 12 November 2012. The effective equity interest in Hubei Wellness Pharmaceutical Co., Ltd. held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.
- (vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB 136.397 million (approximately HK\$169.66 million) (representing approximately RMB 6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.
- (vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB 20.064 million (approximately HK\$24.96 million) (representing approximately RMB 5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.
- (viii) The above table lists the subsidiaries of the Group, which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive lengths.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

22. Intangible Assets

The Group

	Acquired patent rights HK\$'000
Cost	
At 1 January 2011	1,804
Exchange realignment	84
	<hr/>
At 31 December 2011 and 1 January 2012	1,888
Exchange realignment	19
	<hr/>
At 31 December 2012	1,907
	<hr/>
Accumulated amortisation and impairment loss	
At 1 January 2011	846
Provided for the year	346
Exchange realignment	47
	<hr/>
At 31 December 2011 and 1 January 2012	1,239
Provided for the year	353
Exchange realignment	17
	<hr/>
At 31 December 2012	1,609
	<hr/>
Net carrying values	
As at 31 December 2012	298
	<hr/>
As at 31 December 2011	649
	<hr/>

The economic useful lives of recognised intangible assets are as follows:

Intangible assets	Useful economic lives
Acquired patent rights	5.5 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

23. Deferred Tax Assets

The Group

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	Impairment loss on trade and other receivables HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2011	33	2,188	2,221
Acquisition of a subsidiary	1,285	–	1,285
Exchange realignment	14	103	117
At 31 December 2011 and 1 January 2012	1,332	2,291	3,623
Exchange realignment	16	22	38
At 31 December 2012	1,348	2,313	3,661

As at 31 December 2012, the Group has unused tax losses of approximately HK\$46,006,000 (2011: HK\$26,786,000) available to offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$8,188,000 (2011: HK\$9,164,000) of such losses. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK\$37,818,000 (2011: HK\$17,622,000) due to the unpredictability of future profit streams. The tax losses will expire 5 years from the year of origination.

24. Prepayments

The Group

The amount represented prepayment of RMB20,925,000 (equivalent to approximately HK\$26,028,000) (2011: RMB19,469,000 (equivalent to approximately HK\$23,984,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

25. Loan Receivables

The Group

	2012 HK\$'000	2011 HK\$'000
Current portion	14,926	7,392
Non-current portion	37,316	17,247
	52,242	24,639

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

25. Loan Receivables (Continued)

The Group (Continued)

As at 31 December 2012, Grand Pharm (China) has entered into four agreements with 陽新縣財政局國庫科 from which unsecured loans of RMB43,000,000 were lent to 陽新縣財政局國庫科 for 5 years at 1-year benchmark bank loan interest rate quoted by the People's Bank of China without security. The loan was lent to the PRC government body for compensation paid to people originally resided on the land which Grand Pharm (China) is in the progress of obtaining the land use right certificate. Details are set out in note 19(a) above.

The amount is neither past due nor impaired for whom there was no recent history of default.

The effective interest rates on the Group's loan receivables are 4.01% (2011: 4.51%).

26. Inventories

The Group

	2012 HK\$'000	2011 HK\$'000
Raw materials	146,785	98,220
Work-in-progress	137,212	68,777
Finished goods	163,571	156,569
	447,568	323,566
Less: impairment loss	(5,271)	(4,403)
	442,297	319,163

27. Trade and Other Receivables

	The Group		The Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade receivables, net	208,608	176,796	-	-
Bills receivables	75,516	94,090	-	-
Other receivables, deposits and prepayments	183,918	97,653	1,817	2,027
Less: impairment loss on other receivables	(24,606)	(27,259)	-	-
	443,436	341,280	1,817	2,027

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

27. Trade and Other Receivables (Continued)

The Group generally allows a credit period of 30 – 90 days to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	The Group	
	2012 HK\$'000	2011 HK\$'000
Within 90 days	176,798	143,110
91 – 180 days	14,463	24,293
181 – 365 days	17,611	11,630
Over 365 days	21,395	17,885
	230,267	196,918
Less: Accumulated impairment	(21,659)	(20,122)
	208,608	176,796

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balances directly.

Included in the Group's trade receivables are amounts due from the Group's associates of HK\$3,152,000 (2011: HK\$815,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

(a) The movement in the impairment loss of trade receivables is as follows:

	The Group	
	2012 HK\$'000	2011 HK\$'000
Balance at the beginning of the year	20,122	33,904
Arising on acquisition of subsidiaries	104	6,433
Impairment losses recognised	3,949	2,545
Impairment losses reversed	(2,057)	(420)
Amount written off as uncollectible	(1,267)	(24,568)
Exchange realignment	808	2,228
Balance at the end of the year	21,659	20,122

At the end of each reporting period, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

27. Trade and Other Receivables (Continued)

(b) The movement in the impairment loss of other receivables is as follows:

	The Group	
	2012 HK\$'000	2011 HK\$'000
Balance at the beginning of the year	27,259	9,407
Arising on acquisition of subsidiaries	–	16,907
Impairment losses reversed	(42)	(43)
Amount written off as uncollectible	(4,765)	285
Impairment losses recognised on other receivables	1,866	60
Exchange realignment	288	643
Balance at the end of the year	24,606	27,259

(c) Ageing of trade receivables which are past due but not impaired

Included in the Group's trade receivables balances are balances with aggregate carrying amount of HK\$30,943,000 (2011: HK\$34,404,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 123 days (2011: 121 days).

	The Group	
	2012 HK\$'000	2011 HK\$'000
Within 90 days	17,747	23,095
91 – 180 days	12,478	11,080
181 – 365 days	718	229
	30,943	34,404

28. Cash and Cash Equivalents and Pledged Bank Deposits

	The Group		The Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Cash in banks	304,450	343,171	460	13,423
Cash at hand	138	177	10	10
	304,588	343,348	470	13,433

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

28. Cash and Cash Equivalents and Pledged Bank Deposits (Continued)

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	The Group		The Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
HKD	12,468	13,433	460	13,423
USD	30,375	11,471	–	–
EUR	164	–	–	–
RMB	261,581	318,444	10	10
	304,588	343,348	470	13,433

As at 31 December 2012, bank deposits of the Group approximately HK\$23,816,000 (2011: HK\$66,939,000) are pledged as collateral for bills payables.

As at 31 December 2012, the annual effective interest rate on pledged bank deposits is 2.91% (2011: 3.16%).

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

29. Trade and Other Payables

	The Group		The Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade payables	187,232	100,079	–	–
Bills payables	117,410	45,081	–	–
Accrued charges and other creditors	309,824	155,535	402	727
	614,466	300,695	402	727

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

	The Group	
	2012 HK\$'000	2011 HK\$'000
Within 90 days	134,627	72,083
Over 90 days	52,605	27,996
	187,232	100,079

The average credit period on purchases of goods is 90 days.

The bills payables are mature within six months from the end of the reporting period.

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For the year ended 31 December 2012

30. Bank Borrowings

The Group

	2012 HK\$'000	2011 HK\$'000
Bank loans (secured)	1,421,333	732,065
Carrying amount repayable:		
On demand or within one year	1,305,755	695,231
More than one year but not exceeding two years	115,578	36,834
	1,421,333	732,065

As at 31 December 2012 and 2011, certain bank loans are guaranteed by 中國遠大集團有限責任公司 (China Grand Enterprises Incorporation), a related company with common director of the Company, and secured by the allocated land, buildings, prepaid lease payments and bank deposits of the Group in the PRC as detailed in note 41 and independent third parties.

As at 31 December 2012, other than the amount of approximately HK\$345,585,000 (2011: HK\$95,778,000) and HK\$13,000,000 (2011: HK\$nil) which are denominated in USD and HK\$ respectively, the Group's other bank loans are denominated in RMB.

As at 31 December 2012 and 2011, the bank loans are granted by banks in the PRC, Japan and Hong Kong.

Except for the bank loans of approximately HK\$222,648,000 (2011: HK\$391,135,000) that was charged at fixed interest rate of 5.60% to 6.94% (2011: 2.5% to 6.71%) per annum, all other bank loans bear variable interest rates from 3.08% to 7.50% (2011: 3.7 to 7.22%) per annum.

31. Bond Issued

The Company

The Company has issued bonds with aggregate amount of HK\$20,000,000 (2011: HK\$31,000,000) which are unsecured, interest-bearing at 6.56% per annum and (2011: 6.56% per annum) repayable within one year to Grand Pharm (China).

32. Amount Due to a Subsidiary

The Company

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

33. Deferred Tax Liabilities

The Group

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Buildings and prepaid lease payments HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
At 1 January 2011	64,214	3,407	67,621
Fair value adjustment from acquisition of a subsidiary	17,167	–	17,167
Charged directly to equity	–	(1,282)	(1,282)
Credited to profit or loss	(2,057)	–	(2,057)
Exchange realignment	1,206	161	1,367
At 31 December 2011 and 1 January 2012	80,530	2,286	82,816
Fair value adjustment from acquisition of a subsidiary	344	–	344
Charged directly to equity	–	65	65
Credited to profit or loss	(2,287)	–	(2,287)
Exchange realignment	509	16	525
At 31 December 2012	79,096	2,367	81,463

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation have not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK\$14,315,000 (2011: HK\$11,990,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

34. Amount Due to Holding Company

The Group and the Company

As at 31 December 2012 and 2011, the amount is unsecured, interest bearing at 5% per annum and not repayable within next twelve months.

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35. Deferred Income

The Group

The movement of deferred income is set out below:

	HK\$'000
At 1 January 2011	83,529
Compensation received during the year (note (b)/(c))	210,659
Exchange realignment	3,937
At 31 December 2011 and 1 January 2012	298,125
Exchange realignment	2,887
At 31 December 2012	301,012

On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

- (a) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK\$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK\$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

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35. Deferred Income (Continued)

The Group (Continued)

- (b) RMB85,500,000 (equivalent to approximately HK\$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.
- (c) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011, RMB85,500,000 (equivalent to approximately HK\$105,330,000) was received by Grand Pharm (China). The rest of RMB342,000,000 has yet been received by the Group as at the date of approval of these financial statements.
- (d) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent is approximately HK\$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the year ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK\$83,529,000) and RMB171,000,000 (equivalent to approximately HK\$210,659,000) respectively. During the year ended 31 December 2012, the Group did not receive any Compensation.

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36. Share Capital

The Group and the Company

	Number of shares at		Share capital at	
	31 December 2012 '000	31 December 2011 '000	31 December 2012 HK\$'000	31 December 2011 HK\$'000
Authorised				
Ordinary shares of HK\$0.01 each	100,000,000	100,000,000	1,000,000	1,000,000
Issued and fully paid				
At the beginning of the year	1,920,801	1,920,801	19,208	19,208
Issue of shares pursuant to a subscription agreement (<i>note</i>)	41,240	–	412	–
At the end of the year	1,962,041	1,920,801	19,620	19,208

Note:

On 14 February 2012, the Company entered into the subscription agreement with Wuhan Ying Na Wei Management Consultancy Limited and agreed to subscribe of an aggregate of 41,240,000 new subscription shares of HK\$0.01 each in the share capital of the Company at a subscription price of HK\$0.333 per share. The subscription was completed in May 2012.

All shares issue pursuant to the events mentioned above rank pari passu to the then existing shares in issue.

37. Reserves

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

37. Reserves (Continued)

The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2011	268,628	121,273	(41,235)	348,666
Loss and total comprehensive loss for the year	–	–	(3,650)	(3,650)
At 31 December 2011 and 1 January 2012	268,628	121,273	(44,885)	345,016
Issuance of shares through subscription	13,321	–	–	13,321
Loss and total comprehensive loss for the year	–	–	(11,062)	(11,062)
At 31 December 2012	281,949	121,273	(55,947)	347,275

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Loss attributable to shareholders of the Company approximately HK\$11,062,000 (2011: loss of HK\$3,650,000) has been dealt with in the consolidated financial statements of the Company.

38. Share Options

The Company adopted in 2002 a share option scheme (the "Share Option Scheme") of which the eligible participants include the Company's directors, employees of the Group and any advisors (professional or otherwise) or consultants, distributors, suppliers, agents, customers, joint venture partners, service providers to the Group who, the board of directors considers at its sole discretion, have contributed or will contribute to the Group. Unless otherwise terminated or amended, the Share Option Scheme remains in force to 16 May 2012. As at 31 December 2012, the Company did not adopt any new share option scheme.

Pursuant to the Share Option Scheme, the overall limit of the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Share Option Scheme and other share option schemes of the Company, if any, must not exceed 10% of the shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant or grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but shall not be less than the highest of (i) the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; (ii) closing price of the Company's shares on the date of offer; and (iii) the nominal value of the Company's share.

There was no share options exercised and granted throughout the years ended 31 December 2012 and 2011. As at 31 December 2012 and 2011, there were no outstanding share options.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

39. Acquisition of Subsidiaries

(i) Hubei Wellness

On 12 November 2012, Grand Pharm (China) has entered into an agreement to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. at a total consideration of approximately RMB72 million (approximately HK\$90 million). The acquisition has been completed on 22 November 2012. The aggregate consideration of approximately RMB72 million has been settled by cash.

No acquisition-related costs have been included from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	25,127	1,358	26,485
Prepaid lease payments	17,008	17	17,025
Inventories	6,375	–	6,375
Trade and other receivables	4,755	–	4,755
Cash and cash equivalents	21,193	–	21,193
Trade and other payables	(9,697)	–	(9,697)
Tax liabilities	(1,447)	–	(1,447)
Deferred tax liabilities	–	(344)	(344)
	<u>63,314</u>	<u>1,031</u>	<u>64,345</u>
Goodwill arising on acquisition			<u>25,096</u>
Total consideration			<u>89,441</u>
Satisfied by:			
Cash			<u>89,441</u>
Net cash outflow arising on acquisition:			
Consideration paid in cash			(89,441)
Less: Cash and cash equivalents acquired			<u>21,193</u>
			<u>(68,248)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

39. Acquisition of Subsidiaries (Continued)

(i) Hubei Wellness (Continued)

Goodwill arose in the acquisition of Hubei Wellness because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Hubei Wellness. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Had the acquisition of Hubei Wellness been effected at 1 January 2012, the Group's revenue for the year ended 31 December 2012 would have been HK\$2,075,362,000 and the consolidated profit for the year would have been HK\$107,471,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2012, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Hubei Wellness had been acquired at the beginning of the year 2012, the directors have calculated depreciation of property, plant and equipment and amortisation of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

39. Acquisition of Subsidiaries (Continued)

(ii) Wuhan Kernel

On 22 September 2011, Grand Pharm (China) has entered into an agreement to acquire 81.03% equity interest in Wuhan Kernel at a total consideration of approximately RMB103 million (approximately HK\$125 million). The acquisition has been completed on 17 November 2011. The aggregate consideration of approximately RMB103 million has been settled by cash.

Acquisition-related costs amounting to HK\$223,000 have been excluded from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	28,864	3,191	32,055
Prepaid lease payments	14,850	65,475	80,325
Interest in an associate	2,400	–	2,400
Inventories	20,183	–	20,183
Trade and bills receivables	64,167	–	64,167
Other receivables	8,029	–	8,029
Deferred tax assets	1,285	–	1,285
Cash and cash equivalents	11,844	–	11,844
Trade and other payables	(38,375)	–	(38,375)
Amount due to an associate	(52)	–	(52)
Bank borrowings	(30,513)	–	(30,513)
Tax liabilities	(427)	–	(427)
Deferred tax liabilities	–	(17,167)	(17,167)
	<u>82,255</u>	<u>51,499</u>	<u>133,754</u>
Non-controlling interests			(25,378)
Goodwill arising on acquisition			<u>17,093</u>
Total consideration			<u>125,469</u>
Satisfied by:			
Cash			<u>125,469</u>
Net cash outflow arising on acquisitions:			
Consideration paid in cash			(125,469)
Less: Cash and cash equivalents acquired			<u>11,844</u>
			<u>(113,625)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

39. Acquisition of Subsidiaries (Continued)

(ii) Wuhan Kernel (Continued)

The fair value of trade and bills receivable and other receivables at the date of acquisition amounted to HK\$64,167,000 and HK\$8,029,000 respectively. The gross contractual amounts of those trade and other receivables acquired amounted to HK\$95,536,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK\$23,340,000.

The non-controlling interests in Wuhan Kernel recognised at the acquisition date were measured by reference to their proportionate share of net assets acquired.

Goodwill arose in the acquisition of Wuhan Kernel because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Wuhan Kernel. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year is an amount of HK\$1,266,000 contributed by Wuhan Kernel. Revenue for the year includes HK\$1,865,000 in respect of Wuhan Kernel.

Had the acquisition of Wuhan Kernel been effected at 1 January 2011, the Group's revenue for the year would have been HK\$1,746,832,000 and the consolidated profit for the year would have been HK\$94,333,000, in which Wuhan Kernel recorded approximately HK\$101,121,000 in turnover and approximately HK\$8,928,000 in profit after tax during 2011. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Wuhan Kernel had been acquired at the beginning of the current year, the directors have calculated depreciation of property, plant and equipment and amortisation of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

40. Related Party Transactions

- (a) In addition to the balances with associates as disclosed in note 17 and holding company as disclosed in note 34, during the years ended 31 December 2012 and 2011, the Group entered into following transactions with its related parties:

	2012 HK\$'000	2011 HK\$'000
Interest charged to the Group by holding company (note (i))	391	481
Sales of goods to associates (note (ii))	4,996	6,179

Note:

- (i) Interest was charged on an advance from the holding company as disclosed in note 34.
- (ii) Transactions were conducted with terms mutually agreed with the contracting parties.
- (b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2012 and 2011 are set out in note 30.
- (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2012 HK\$'000	2011 HK\$'000
Short-term benefits	5,844	5,450
Post-employment benefits	104	44
	5,948	5,494

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

41. Pledge of Assets

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2012 HK\$'000	2011 HK\$'000
Prepaid lease payments	23,874	84,250
Allocated land	6,920	1,849
Buildings	19,253	36,009
Pledged bank deposits	23,816	66,939
	73,863	189,047

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For the year ended 31 December 2012

42. Commitments

(a) Operating lease commitment

The Group as lessee

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

	2012 HK\$'000	2011 HK\$'000
Within one year	4,239	3,433
In the second to fifth year inclusive	3,366	2,544
	7,605	5,977

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to four years and rentals are fixed for an average of one to four years.

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK\$2,065,000 (2011: HK\$783,000). The total future minimum lease payments from tenants under non-cancellable operating lease are as follows:

	2012 HK\$'000	2011 HK\$'000
Within one year	13	190
In the second to fifth year inclusive	-	13
	13	203

(b) Capital commitment

	2012 HK\$'000	2011 HK\$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	321,045	174,670
Acquisition of other non-current assets	-	3,743
	321,045	178,413

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. Retirement Benefits Schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,250 and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK\$1,250 (2011: HK\$1,000) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and associates in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and associates were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to income of approximately HK\$27,694,000 (2011: HK\$13,335,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

44. Major Non-cash Transactions

- (a) In the current year, the Group did not enter any major non-cash transactions.
- (b) As disclosed in note 21(ii), during the year ended 31 December 2011, Grand Pharm (China) has acquired 6.4% equity interest in Wuhan Grand Hoyo with a consideration of RMB5,420,000 (equivalent to approximately HK\$6,440,000) which was paid for the year ended 31 December 2010 and included in deposits for acquisition of non-current assets as at 31 December 2010.

45. Acquisition of Additional Equity Interest of a Subsidiary

During the year ended 31 December 2012, the Group acquired additional 25.93% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB166,121,000 (approximately HK\$206,527,000). The Group recognised a decrease in non-controlling interests and increase in other reserve of approximately HK\$230,081,000 and HK\$23,554,000 respectively.

46. Events after the Reporting Period

Pursuant to the joint venture agreement signed on 22 February 2013 entered into between Grand Pharm (China), an indirectly non wholly-owned subsidiary of the Company, and an independent third party that agreed to establish a joint venture company in the PRC. The independent third party contributed RMB50,000,000 together with Grand Pharm (China) contributed RMB75,000,000. Upon completion of the establishment of the joint venture company, Grand Pharm (China) and the independent third party owned 60% and 40% equity interests in the joint venture company respectively. For more details, please refer to the Company's announcement dated 22 February 2013.

47. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 March 2013.

Financial Summary

Results

	Year ended 31 December				
	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
Revenue	2,059,307	1,647,576	1,054,754	545,435	269,882
Profit/(loss) before tax	115,535	99,464	158,166	48,786	(19,277)
Income tax	(10,830)	(12,793)	(3,889)	(6,873)	4
Profit/(loss) for the year	104,705	86,671	154,277	41,913	(19,273)

Assets and liabilities

	As at 31 December				
	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
Total assets	3,354,085	2,431,147	1,687,086	617,332	572,034
Total liabilities	(2,474,356)	(1,461,228)	(840,237)	(481,636)	(481,469)
Net assets	879,729	969,919	846,849	135,696	90,565